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BUDGETING AND ACCOUNTING



HEARINGS
BEFORE THE
SUBCOMMITTEE ON REORGANIZATION
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
UNITED STATES SENATE
EIGHTY-FOURTH CONGRESS
SECOND SESSION
ON
S. 3362, S. 3199, S. 2480, and S. 2369
RELATING TO BUDGETING AND ACCOUNTING

MARCH 20, 21, 26, 27, AND 28, 1956

Printed for the use of the Committee on Government Operations



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¹ Senator Strom Thurmond, South Carolina, was a member of the Committee on Government Operations and Subcommittee on Reorganization at the time of these hearings. Senator Thurmond resigned April 5, 1954. Senator Thomas A. Wofford was assigned to fill the vacancy April 18, 1956.

CONTENTS

Hearings held:	Page
March 20, 1956, on S. 3362-----	1
On S. 3199 (S. 3199 incorporated provisions of S. 2369 and S. 2480). 33,	34
March 21, 1956, on S. 3199-----	55
March 26, 1956, on S. 3199-----	125
On S. 3362-----	125
March 27, 1956, on S. 3199-----	161
March 28, 1956, on S. 3199-----	231
On S. 3362-----	234
S. 2369, a bill to provide for improving accounting methods in the executive branch of the Government, and for other purposes-----	7
S. 2480, a bill to provide for improving accounting methods in the executive branch of the Government, and for other purposes-----	6
S. 3199, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes-----	3
Agency comments on S. 3199, section-by-section analysis, Subcommittee on Reorganization-----	21
S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes-----	2
Committee Print (S. 3362), March 27, 1956-----	234
Staff Memorandum 84-2-3, Subcommittee on Reorganization, February 28, 1956, relative to draft of bill relating to the payment of certain claims against the Government where the appropriation therefor has lapsed---	7
Staff Memorandum 84-2-4, Subcommittee on Reorganization (no date), relative to S. 3362-----	8
Staff Memorandum 84-2-5, Subcommittee on Reorganization, March 7, 1956, relative to S. 2369-----	10
Staff Memorandum 84-2-6, Subcommittee on Reorganization, March 16, 1956, relative to S. 3199-----	13
Enclosure A: Letter, March 7, 1956, from Hon. Joseph Campbell, Comptroller General of the United States, to Hon. John F. Kennedy--	16
Letters submitted as statements or enclosures:	
Brundage, Hon. Percival, Acting Director, Bureau of the Budget, letter, March 16, 1956, to Hon. John F. Kennedy, relative to S. 3362 (submitted in testimony of William F. Finan, March 20, 1956)----	29
Burgess, Hon. W. Randolph, Acting Secretary of the Treasury, letter and statement, March 21, 1956, to Hon. John F. Kennedy, relative to S. 3199 (summarized in testimony of William T. Heffelfinger, March 26, 1956)-----	157
Campbell, Hon. Joseph, Comptroller General of the United States, letter, March 7, 1956, to Hon. John F. Kennedy, relative to S. 3199 (submitted as enclosure A in Staff Memorandum 84-2-6)-----	16
Hughes, Hon. Rowland, Director, Bureau of the Budget, letter, March 20, 1956, to Hon. John F. Kennedy, relative to S. 3199 (submitted in testimony of William F. Finan, March 26, 1956)-----	127
Statement of:	
Kennedy, Hon. John F., a United States Senator from the State of Massachusetts (chairman, Subcommittee on Reorganization), March 20, 1956, opening statement-----	1
Bordner, Howard W., Deputy Comptroller for Accounting Policy, Department of Defense, relative to S. 3362-----	242
Brasfield, Karney A., Assistant to the Comptroller General of the United States, accompanied by Robert F. Keller, Assistant to the Comptroller General of the United States, relative to S. 3199, S. 2369, and S. 2480-----	134, 231
(See testimony of Hon. W. J. McNeil, accompanied by Howard W. Bordner, for additional testimony of Mr. Brasfield)-----	210

Statement of—Continued	Page
Cake, Gilbert L., Associate Commissioner, Bureau of Accounts, Department of the Treasury, relative to S. 3362-----	36
Cotton, Hon. Norris, a United States Senator from the State of New Hampshire (member of Subcommittee on Reorganization), statement, relative to S. 3362-----	126
Finan, William F., Assistant Director for Management and Organization, Bureau of the Budget, relative to S. 3199-----	146
Accompanied by William J. Armstrong, Chief of the Accounting Group, relative to S. 3362-----	23, 236
Relative to S. 3199-----	126
(See testimony of Robert F. Keller, accompanied by Karney A. Brasfield, etc., for additional testimony of Mr. Finan, relative to S. 3362)-----	52
Heffelfinger, William T., Fiscal Assistant Secretary, accompanied by Gilbert L. Cake, Associate Commissioner, Bureau of Accounts, Department of the Treasury, relative to S. 3199-----	150
Keller, Robert F., Assistant to the Comptroller General of the United States, accompanied by Karney A. Brasfield, Assistant to the Comptroller General of the United States; John Moore, Office of General Counsel; and S. M. Brown, Accounting System Division (General Accounting Office), relative to S. 3362-----	46
Lanman, Maurice H., Jr., Assistant General Counsel (Fiscal Matters), accompanied by Howard W. Bordner, Deputy Comptroller for Accounting Policy, Department of Defense, relative to S. 3199-----	89
(See testimony of Gilbert L. Cake for additional testimony of Mr. Lanman), relative to S. 3362-----	44
Relative to S. 3199-----	46
(See testimony of Robert F. Keller, accompanied by Mr. Brasfield, etc., for additional testimony of Mr. Lanman, relative to S. 3362)-----	52
Payne, Hon. Frederick G., a United States Senator from the State of Maine, relative to S. 3199-----	56
Sectional analysis of S. 3199-----	60
(See testimony of Hon. J. Harold Stewart for additional testimony of Senator Payne, relative to S. 3199)-----	65
(See testimony of Maurice H. Lanman, Jr., accompanied by Howard W. Bordner, for additional testimony of Senator Payne, relative to S. 3199)-----	89
McNeil, Hon. W. J., Assistant Secretary (Comptroller), accompanied by Maurice H. Lanman, Jr., Assistant General Counsel (Fiscal Matters) accompanied by Howard W. Bordner, Deputy Comptroller for Accounting Policy, Department of Defense, relative to S. 3362-----	31
Relative to S. 3199-----	33, 34
Accompanied by Howard W. Bordner, relative to S. 3199-----	161
Stewart, Hon. J. Harold, Chairman, Second Hoover Commission's Task Force on Budget and Accounting, Boston, Mass., relative to S. 3199-----	65
Statements, letters, etc., submitted for the record:	
Adjustments to Department of Defense budget requests for fiscal years 1954 and 1957, relative to S. 3199-----	109
American Institute of Accountants, 270 Madison Avenue, New York, N. Y., John H. Zebley, Jr., president, letter, May 3, 1956, to Hon. John L. McClellan (chairman, Committee on Government Operations) relative to Hoover Commission recommendations on budget and accounting-----	250
1954 annual appropriations as of June 30, 1955, relative to S. 3362--	49
Bennett, Hon. Wallace F., a United States Senator from the State of Utah, statement, relative to S. 3199-----	64
Butler, Hon. John Marshall, a United States Senator from the State of Maryland, letter, March 19, 1956, to Hon. John F. Kennedy, relative to S. 3199-----	119
Chamber of Commerce of the United States, Clarence R. Miles, manager, legislative department, to Hon. John F. Kennedy, relative to S. 3199, letter, March 20, 1956-----	123
Letter, March 28, 1956-----	249

Statements, letters, etc.—Continued	Page
Dawson, Hon. William L., a Representative in Congress from the State of Illinois (chairman, House Committee on Government Operations), letter, from The Professional Council on Federal Financial Administration, November 15, 1955, relative to Hoover Commission recommendations on budget and accounting-----	244
Department of Defense instruction, report on reprogramming of appropriated funds, relative to S. 3199-----	113
Views on S. 3199-----	211
Views on implementation of report, on budget and accounting (attachment to views on S. 3199)-----	215
Federal budgeting and accounting, comments on, by Dr. Lloyd Morey, ex-president, University of Illinois (submitted for the record by Hon. W. J. McNeil)-----	227
Hruska, Hon. Roman L., a United States Senator from the State of Nebraska, letter, March 20, 1956, to Hon. John F. Kennedy, relative to S. 3199-----	120
Increasing congressional control over expenditures by adoption of an expenditure basis for appropriations (memorandum prepared by Hon. W. J. McNeil for Senator Byrd, January 1953), relative to S. 3199-----	92
Joint staff for the Appropriations Committees of the Senate and House of Representatives (memorandum, Hon. W. J. McNeil)-----	188
Keller, Robert F., assistant to the Comptroller General of the United States, memorandum, 1954 annual appropriations as of June 30, 1955, relative to S. 3362-----	49
Lanman, Mauriee H., Jr., Assistant General Counsel (Fiscal Matters), Department of Defense, Department of Defense instruction, report on reprogramming of appropriated funds, relative to S. 3199-----	113
Lipcomb, Hon. Glenard P., a Representative in Congress from the State of California, letter and statement, March 21, 1956, to Hon. John F. Kennedy, relative to S. 3199 and H. R. 9402-----	121
Kennedy, Hon. John F., a United States Senator from the State of Massachusetts (chairman, Subcommittee on Reorganization), letters from:	
Brundage, Hon. Pereival, Acting Director, Bureau of the Budget, March 16, 1956, relative to S. 3362 (submitted in testimony of William F. Finan, March 20, 1956)-----	29
Burgess, Hon. W. Randolph, Acting Secretary of the Treasury, March 21, 1956, relative to S. 3199 (with attached statement summarized in testimony of William T. Heffelfinger, March 26, 1956)-----	157
Butler, Hon. John Marshall, a United States Senator from the State of Maryland, March 19, 1956, relative to S. 3199-----	119
Campbell, Hon. Joseph, Comptroller General of the United States, March 7, 1956, relative to S. 3199 (submitted as enclosure A in Staff Memorandum 84-2-6)-----	16
Chamber of Commerce of the United States, Clarence R. Miles, manager, legislative department, relative to S. 3199—	
March, 20, 1956-----	123
March 28, 1956-----	249
Hughes, Hon. Rowland, Director, Bureau of the Budget, March 20, 1956, relative to S. 3199 (submitted in testimony of William F. Finan, March 26, 1956)-----	127
Priece, Waterhouse & Co., Mr. Paul Grady, 26 Pine Street, New York, N. Y., March 27, 1956, relative to S. 3199-----	244
Hruska, Hon. Roman L., a United States Senator from the State of Nebraska, March 20, 1956, relative to S. 3199-----	120
Lipcomb, Hon. Glenard P., a Representative in Congress from the State of California, March 21, 1956, relative to S. 3199 and H. R. 9402-----	121
Saltonstall, Hon. Leverett, a United States Senator from the State of Massachusetts, March 21, 1956, relative to S. 3199---	120
Smith, Hon. H. Alexander, a United States Senator from the State of New Jersey, March 17, 1956, relative to S. 3362 and S. 2678-----	53

Statements, letters, etc.—Continued	Page
Kennedy, Hon. John F., letters from—Continued.	
Stewart, Hon. J. Harold, Chairman, Second Hoover Commission's Task Force on Budget and Accounting, Boston, Mass., statements, relative to S. 3199	83
Letter, April 7, 1956, relative to testimony of Hon. W. J. McNeil on S. 3199	85
McClellan, Hon. John F., a United States Senator from the State of Arkansas (chairman, Senate Committee on Government Operations), letter, May 3, 1956, from the American Institute of Accountants, 270 Madison Avenue, New York, N. Y., John H. Zebley, Jr., president, relative to Hoover Commission recommendations on budget and accounting	250
McNeil, Hon. W. J., Assistant Secretary (Comptroller) Department of Defense, comments on Federal budgeting and accounting by Dr. Lloyd Morey, ex-president, University of Illinois	227
Memoranda:	
Adjustments to Department of Defense budget requests for fiscal years 1954 and 1957, relative to S. 3199	109
Increasing congressional control over expenditures by adoption of an expenditure basis for appropriations (prepared for Senator Byrd, January 1953), relative to S. 3199	92
Joint staff for the Appropriations Committees of the Senate and House of Representatives	188
Statement, Department of Defense views on S. 3199	211
Morey, Dr. Lloyd, ex-president, University of Illinois, Champaign-Urbana, Ill., comments on Federal budgeting and accounting (submitted for the record by Hon. W. J. McNeil)	227
Payne, Hon. Frederiek G., a United States Senator from the State of Maine, sectional analysis of S. 3199	60
Price, Waterhouse & Co., Mr. Paul Grady, 26 Pine Street, New York, N. Y., letter, March 27, 1956, to Hon. John F. Kennedy, relative to S. 3199	244
Professional Council on Federal Financial Administration, The, letter, November 15, 1955, to Hon. William L. Dawson, a Representative in Congress from the State of Illinois (chairman, House Committee on Government Operations), relative to Hoover Commission recommendations on budget and accounting	244
Saltonstall, Hon. Leverett, a United States Senator from the State of Massachusetts, letter, March 17, 1956, to Hon. John F. Kennedy, relative to S. 3199	120
Smith, Hon. H. Alexander, a United States Senator from the State of New Jersey, letter, March 17, 1956, to Hon. John F. Kennedy, relative to S. 2678 and S. 3362	53
Stewart, Hon. J. Harold, Chairman, Second Hoover Commission's Task Force on Budget and Accounting, Boston, Mass., letter, April 7, 1956, to Hon. John F. Kennedy, relative to testimony of Hon. W. J. McNeil	85
Statement, relative to S. 3199	83

BUDGETING AND ACCOUNTING

TUESDAY, MARCH 20, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON REORGANIZATION OF THE
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 357, Senate Office Building, Washington, D. C., Senator John F. Kennedy (chairman of the subcommittee), presiding.

Present: Senator John F. Kennedy, Democrat, Massachusetts; Senator Stuart Symington, Democrat, Missouri; Senator Norris Cotton, Republican, New Hampshire.

Present also: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator KENNEDY. The subcommittee will come to order.

This hearing has been called to consider recommendations made by the Hoover Commission relating to the Federal Government's budgeting, accounting, and fiscal reporting programs.

Four bills which would implement the Commission's recommendations in these important areas will be considered during the hearing. They are:

S. 3362, which would expedite the payment of certified claims against the Government for which appropriations have lapsed;

S. 3199, which would require agencies in the executive branch to establish cost-based budgets, maintain their accounts on an accrued basis, create a staff office of accounting in the Bureau of the Budget; and make certain other changes in budgeting and accounting procedures; and

S. 2480 and S. 2369, which are identical bills, and which also would establish a staff office of accounting in the Bureau of the Budget.

The first part of the hearing this morning will be devoted to S. 3362, which relates to the payment of certified claims.

I am advised that this bill has the approval of the Bureau of the Budget, the General Accounting Office, and the Treasury Department, subject to certain technical changes which the subcommittee will consider at this time.

These agencies agree that the accounting improvements incorporated in this measure will greatly facilitate the payments of claims and substantially reduce the administrative expenses of handling them—without the sacrifice of appropriate safeguards.

When we have concluded the testimony on S. 3362, we will take up S. 3199, S. 2480 and S. 2369.

At this point, the chair desires to place in the record copies of S. 3362, S. 3199, S. 2480, and S. 2369, along with pertinent memoranda prepared by the subcommittee staff.

(The matter referred to is as follows:)

[S. 3362, 84th Cong., 2d sess.]

A BILL To simplify accounting, facilitate the payment of obligations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, except as otherwise provided by law, (a) the account of each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the activity responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement, on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation as of the close of the fiscal year as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals required pursuant to subsection (a) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically but at least once each fiscal year, by each activity responsible for the liquidation of the obligations chargeable to such accounts. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess shall be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals

required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the activity currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled or will not be undertaken or continued; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed.

(a) The proviso under the heading "Payment of certified claims" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of certified claims" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia.

[S. 3199, 84th Cong., 2d sess.]

A BILL To improve governmental budgeting and accounting methods and procedures, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

SECTION 1. (a) Section 213 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 21), is amended by adding at the end thereof the following: "The Director shall utilize information obtained under this section, among other pur-

poses, to prepare comprehensive reports, other than purely fiscal reports, showing the financial results of the activities of the departments and establishments. Such reports shall be prepared on a fiscal year basis, or at such shorter intervals as the Director may deem practicable, and shall be transmitted to the President and to the Congress."

(b) Section 216 of such Act, as amended (31 U. S. C. 24), is amended to read as follows:

"SEC. 216. (a) For purposes of administration and operation, cost-based budgets shall be used by all departments and establishments and their subordinate units. Fund allocations within the departments and establishments shall be made on the basis of such cost budgets.

"(b) Subordinate operating units within a department or establishment shall submit quarterly performance reports to the head of such department or establishment, and the head of each department or establishment shall submit a report to the bureau, not later than September 30 of each year, on the conduct of its operations in the preceding fiscal year. The bureau shall, on the basis of such reports, submit an annual performance report to the President for all the departments and establishments.

"(c) Requests for regular, supplemental, or deficiency appropriations which are submitted to the bureau by the head of any department or establishment shall be prepared on a cost basis and shall include such data and be submitted in such manner as the President may determine in accordance with the provisions of section 201 of this Act.

"(d) The Budget, required by section 201 of this Act to be transmitted to the Congress, shall contain information on program costs and accomplishments, and a review of performance by organizational units whenever such units do not coincide with performance budget classifications."

(c) Title II of such Act, as amended, is amended by adding at the end thereof a new section as follows:

"SEC. 218. The director, under such rules and regulations as the President may prescribe, shall designate and assign qualified personnel of the bureau to serve in the principal departments and establishments, as determined by the President, for the purpose of maintaining a continuous review by the bureau of budget preparation and administration within any such department or establishment, and to further assist the bureau in carrying out its managerial functions and responsibilities. Not more than two persons for each principal subdivision of a department or establishment shall be assigned by the director to any one department or establishment, and, insofar as practicable, persons so assigned to any department or establishment shall possess the combined skills of the statistician, cost accountant, administrative expert, and program analyst. No such person shall be so assigned to any department or establishment for more than two consecutive years."

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

SEC. 2. (a) Section 104 of the Budget and Accounting Procedures Act of 1950 (31 U. S. C. 18a) is amended by adding at the end thereof a new sentence as follows: "Each executive agency of the Government shall, under the general supervision of the Director of the Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, consistency in its organizational structure, budget classifications, and accounting systems."

(b) Section 113 of such Act (31 U. S. C. 66a) is amended by adding at the end thereof the following new subsection:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show currently, completely, and clearly the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets and agency reports as required by section 216 of the Budget and Accounting Act, 1921. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

(c) Such Act is further amended by adding after section 119 thereof the following new sections:

"STAFF OFFICE OF ACCOUNTING

"SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, and to receive compensation at the rate of \$ _____ per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

"(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

"(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, and who shall have the following functions and duties—

"(1) to supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) to direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) to develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) to interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) to direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

SIMPLIFICATION OF ALLOTMENT SYSTEM FOR ALLOCATING FUNDS

SEC. 3. It is the intent of the Congress that each executive agency, as defined in section 118 of the Budget and Accounting Procedures Act of 1950, shall take whatever steps are necessary to simplify the allotment system for allocating funds to operating units within such agency, and in making such simplification each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one allotment for each appropriation affecting such unit.

SINGLE AGENCY ACCOUNTS

SEC. 4. (a) Each executive agency, as defined in section 118 of the Budget and Accounting Procedures Act of 1950, shall, in accordance with principles and standards prescribed by the Comptroller General, maintain a single account under each appropriation title or fund.

(b) This section shall take effect on the first day of the first fiscal year commencing after the date of enactment of this Act.

JOINT STUDY BY BUREAU OF BUDGET AND GENERAL ACCOUNTING OFFICE

SEC. 5. (a) The Director of the Bureau of the Budget and the Comptroller General shall jointly undertake a study and investigation to determine—

(1) what steps can be taken to eliminate (A) duplicate accounts within the Treasury Department, and (B) duplicate accounting as between the

Treasury Department and the other departments and agencies of the Government; and

(2) the adequacy of internal auditing in the executive departments and agencies of the Government.

(b) The Director of the Bureau of the Budget and the Comptroller General shall report the results of their study and investigation together with such recommendations as they deem appropriate, to the Congress not later than two years after the date of enactment of this Act.

[S. 2480, 84th Cong., 1st sess.]

A BILL To provide for improving accounting methods in the executive branch of the Government, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following new sections:

"STAFF OFFICE OF ACCOUNTING

"SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, by and with the advice and consent of the Senate, and to receive compensation at the rate of \$ per annum.

"(b) It shall be the duty of the Assistant Director for Accounting—

"(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

"(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

"(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

"(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

"(5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

"COMPTROLLERS FOR EXECUTIVE AGENCIES

"SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a Comptroller who shall be directly responsible to him, who shall receive compensation at the rate of \$ per annum, and who shall have the following functions and duties—

"(1) to supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 hereof;

"(2) to direct the recruitment, training, and development of qualified accounting personnel for such agency;

"(3) to develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies;

"(4) to interpret and advise upon significant aspects of the financial reports of the agency; and

"(5) to direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets."

[S. 2369, 84th Cong., 1st sess.]

A BILL To provide for improving accounting methods in the executive branch of the Government, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Budget and Accounting Procedures Act of 1950 is hereby amended by adding after section 119 thereof the following new sections:

STAFF OFFICE OF ACCOUNTING

SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director for Accounting, to be appointed by the President, by and with the advice and consent of the Senate, and to receive compensation of \$ per annum.

(b) It shall be the duty of the Assistant Director for Accounting—

(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part;

(2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan;

(3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress;

(4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and

(5) to report to the Director of the Bureau of the Budget at least once a year, and at such other times as the Director may require, with respect to the status of accounting in each of the executive agencies.

COMPTROLLERS FOR EXECUTIVE AGENCIES

SEC. 121. (a) The head of each executive agency is authorized and directed, with the advice of the Assistant Director for Accounting, to provide for the appointment of a comptroller who shall be directly responsible to him, who shall receive compensation at the rate of \$ per annum, and who shall have the following functions and duties:

(1) To supervise and direct the setting up and maintenance in such agency of adequate accounting and auditing systems and procedures in conformity with the overall plan prescribed by the Assistant Director for Accounting pursuant to section 120 thereof.

(2) To direct the recruitment, training, and development of qualified accounting personnel for such agency.

(3) To develop and be responsible for reliable and informative financial reports for internal management purposes and for submission to the Congress and the various executive agencies.

(4) To interpret and advise upon significant aspects of the financial reports of the agency.

(5) To direct the preparation of budgets at operating levels for the information of the head of the agency or other officials responsible for budget policies in such agency, and to review the execution of such budgets.

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84-2-3, FEBRUARY 28, 1956

Subject: Draft of bill relating to the payment of certain claims against the Government where the appropriation therefor has lapsed.

The attached draft of a bill was prepared by the General Accounting Office in cooperation with the Bureau of the Budget and Department of the Treasury for the purpose of improving accounting in accordance with the recommendations of the second Hoover Commission, in its report on Budgeting and Accounting.

The attached bill would supersede S. 2678, introduced by Senator Smith of New Jersey, last July, which is pending before the subcommittee. The agencies referred to above, after thorough examination of the problem, have recommended a number of significant improvements which it is believed can be handled more expeditiously by introduction of a clean bill.

The revised draft has been cleared by the Bureau of the Budget with all affected departments and agencies which are in accord with its objectives. However, the Department of Defense has suggested certain technical changes which have not been accepted by the Bureau of the Budget or the General Accounting Office.

PURPOSE

This bill would change the existing requirement of law with respect to appropriations available for a definite period of time, by (1) closing such accounts at the end of the obligation period (June 30 each year) instead of at the end of 2 succeeding years, and (2) by extending indefinitely the authority of the agencies to liquidate undisputed liabilities incurred against prior-year appropriations. At the present time obligations chargeable to lapsed appropriations are examined by the agency and forwarded to the General Accounting Office for approval. They are then transmitted to the Treasury where, if funds are available, they are paid; if not available, they are included in a deficiency appropriation request. Under the proposed legislation the various agencies of the Government would be permitted to pay these claims; however, if a question of law or fact is involved the claims would be sent to the GAO for approval.

The bill is designed to improve the appropriation and fund accounting of the departments and agencies of the Government, authorize the elimination of approximately 35,000 detailed ledger accounts maintained by the General Accounting Office, Department of the Treasury, and other agencies; and facilitate the payment of claims for money due and payable from lapsed appropriations. Payment from the lapsed appropriations would be possible by transferring, at the end of each fiscal year, the obligated balance of each account to a consolidated appropriation account from which agencies would approve claims presented for payment after the close of the fiscal year.

It is understood that the Department of Defense prefers that this draft be changed to permit the transfer of lapsed appropriations into one account; authority to restore funds to, or in some instances from certain accounts, and contends that it needs a year or two lead time prior to implementation of this procedure.

The General Accounting Office reported to the committee that the following advantages will accrue to the Government if this proposal is enacted into law:

(1) We believe that this substitute bill will satisfactorily fulfill the objectives of S. 2678, and, in addition, will result in substantial accounting improvements which the pending measure does not contemplate.

(2) Since the "Payment of certified claims" is classified as a Treasury Department appropriation account, the liquidation of outstanding obligations against lapsed appropriations is recorded as an expenditure of that Department, rather than an expenditure of the agencies benefiting therefrom. This accounting treatment overstates expenditures of the Treasury Department and correspondingly understates expenditures of the agencies which incurred the obligations.

(3) We believe the legislation which we are proposing is sound in principle and will materially advance the cause of accounting improvement in the Government, with substantial decrease in the cost of administration, and with no sacrifice of the appropriation safeguards.

GLENN K. SHRIVER,
Professional Staff Member.

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84-2-4

Subject: S. 3362 (Kennedy)—To simplify accounting, facilitate the payment of obligations and for other purposes.

This memorandum is intended to supplement the information contained in staff memorandum 84-2-3, dated February 28, 1956, which contained a brief outline of the salient features of S. 3362 prior to its introduction in the Senate.

This bill will make possible certain improvements in accounting, disbursing and fiscal reporting throughout the Government without removing the safeguards which are needed to assure that appropriations are controlled in accordance with the purpose and intent of Congress. The objectives to be attained by this bill have been studied by the Joint Accounting Improvement Committee, composed of technicians of the Department of the Treasury, Bureau of the Budget, and General Accounting Office during the past 5 years. These departments and agencies have approved this bill.

The Hoover Commission and its task force recommended in its report on budget and accounting that the various agencies of the Government be authorized to settle delayed bills without prior approval of the General Accounting Office and that one account be established for controlling the amount available for liquidation of valid obligations.

The Hoover Commission's recommendation follows:

"That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations" (recommendation No. 17).

The Commission further stated that:

"All agency disbursements must be related to a legal appropriation. Where the appropriations are annual appropriations (as distinguished from no-year appropriations) the agencies are authorized to make payments therefrom during the fiscal year for which appropriated or during the succeeding 2 fiscal years. This results in keeping separate accounts for appropriations, allotments, suballotments, obligations and related cash payments for each of 3 years. The effect is an unnecessary complication in the accounting for disbursements in executive agencies and in the separate accounts maintained at the Treasury.

"The agencies should be authorized to merge the balance of unliquidated obligations under any one appropriation title with the latest annual appropriation under that same title.¹ Annual appropriations which are not obligated within the appropriation year cease to be available and at the end of such year would be eliminated. The remaining balances should be available for liquidation of legal abilities until expended or written off."

At the present time vouchers which are submitted to the respective agencies for payment after the appropriations have lapsed, are referred to the General Accounting Office, for review, and clearance before submission to the Treasury Department. These vouchers are commonly referred to as "claims," however they are not a "claim" as that term is generally used in the legal profession, but merely bills which were submitted for payment after the appropriation has lapsed.

The Hoover Commission considered this procedure of handling so-called claims or delayed bills and made the following recommendation:

"That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as 'claims' to the General Accounting Office, but should be settled within the agencies" (recommendation No. 18).

Section 305 of the Budget and Accounting Act of 1921 provides:

"All claims and demands whatever by the Government of the United States or against it, * * * shall be settled and adjusted in the General Accounting Office."

"There are some exceptions. These include the Internal Revenue Service for income tax matters; the Railroad Retirement Board for pension claims; the Social Security Administration for old-age and survivor insurance claims; and the Veterans' Administration for benefit payments. Otherwise, "claims" made against an executive agency are reviewed by the agency concerned and then submitted to the General Accounting Office for settlement. Where the claim relates to an open appropriation it is, if approved by the General Accounting Office, returned to the executive agency for payment. Requests for payment under lapsed appropriations are currently designated as "claims" and hence are referred to the General Accounting Office. Such claims are, if approved by the General Accounting Office recorded in the records of that office. They are then referred to the Treasury Department for payment from the "payment of certified claims" account.

"During 1954, 38,000 of the claims received by the General Accounting Office related to lapsed appropriations. Approximately 28,000 of them did not involve

¹ This bill would not merge the unliquidated balances of appropriations, but would authorize writing off these amounts. However, the obligated balance would be transferred to a no-year account for payment of delayed bills.

any doubtful or complex matter. It is apparent that under existing procedure the General Accounting Office is engaged in examining and settling as "claims" many requests for payment which are routine and involve no questions of law or fact. Substantial economies would be obtained if the agencies were authorized to make direct settlement of claims without their prior submission to the General Accounting Office, except in those cases involving questions of law or fact. If this were done, unexpended balances of closed appropriations which are normally transferred to the "payment of certified claims" account maintained at the Treasury Department would be retained in the agencies. Agency procedures in settling claims would, of course, be subject to review and audit by the General Accounting Office."

CONCLUSION

During the last 6 months of 1947 the staff of this committee, at the direction of the chairman, made a study of the accounting and financial reporting system of the Government for the purpose of focusing attention on certain orders and regulations which compelled the agencies to maintain, duplicate records, and prepare certain reports which were of questionable value to the agencies concerned.

As a result of this survey and staff memorandum No. 1 dated August 21, 1947, the General Accounting Office, Bureau of the Budget and Department of the Treasury set up accounting survey committees, which later became the joint accounting improvement program, authorized by the Budget and Accounting Procedures Act of 1950, Public Law 784, approved September 12, 1950.

The procedures and methods followed, for the payment of "claims" was one of the activities which this group of technicians studied during the past 5 years, and as a result of its study and discussion with the Hoover Commission Task Force on Budgeting and Accounting, the Commission recommended that improvement be made to expedite the payment of obligations chargeable to lapsed appropriations.

The General Accounting Office has assured the staff that should this bill be enacted into law, it will expedite the payment of old bills, make possible the abolition of a substantial portion of the 35,000 accounts now required for payment of these bills, and save manpower and reduce administrative expenses in the General Accounting Office and in other departments and agencies.

GLENN K. SHRIVER,
Professional Staff Member.

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84-2-5, MARCH 7, 1956

Subject: S. 2369 (Smathers for Kennedy), to provide for improving accounting methods in the executive branch of the Government, and for other purposes.

PURPOSE

S. 2369 is designed to implement recommendations Nos. 10, 11, and 12 of the Second Hoover Commission Report on Budget and Accounting. S. 2480 (McCarthy), is identical. The purpose of S. 2369 is to authorize the establishment of a Staff Office of Accounting in the Bureau of the Budget, the head of which would be an Assistant Director appointed by the President and confirmed by the Senate. This official would be responsible for developing and promulgating overall accounting and reporting procedures, and would assist in introduction of modern accounting systems, follow-up on performance by the various agencies, assist in selection and training of accountants, and make such reports as are required by the Director of the Bureau of the Budget.

Section 121 of the bill would authorize the head of each agency to appoint a comptroller for his department, after consultation with the Assistant Director of the Bureau of the Budget for Accounting.

The agency Comptroller would, under this bill, supervise the establishment and maintenance of adequate accounting and reporting systems, direct the training of accounting personnel, prepare reports for internal management purposes, for submission to Congress, interpret reports, and direct the preparation of budget estimates at the operating level within the agency.

In a report to the chairman of the subcommittee, dated November 15, 1955, the Comptroller General commented as follows on this bill:

"It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of management to be successful. However, the objective of the proposed legislation, namely, placing added emphasis on getting the job done governmentwide, could be very helpful in expediting progress and need in no way be deemed inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, Director of the Bureau of the Budget, and the Comptroller General of the United States for several years.

"We do not believe that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of Assistant Director for Accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

"Section 121 provides for Comptrollers in each executive agency. Here, again, we do not believe that legislation is required. Because of the wide divergence in size, functions and existing organizational patterns in the many executive agencies, we believe it would be preferable for the statute to omit or, in any event, be less specific as to the title and compensation of the official to whom the head of the agency would assign the functions and duties described if legislation is deemed desirable. * * *

In support of his views the Comptroller General transmitted by letter dated November 15, 1955, the following additional comments on recommendations numbered 10, 11, and 12 of the Hoover Commission report:

Recommendation No. 10

"That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

"(a) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

"(b) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

"(c) To set reasonable but definite time schedules for performance and to watch progress.

"(d) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

"(e) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

"The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. As the Committee on Government Operations is well aware, through its activities in connection with the Budget and Accounting Procedures Act of 1950, that statute recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget and the Comptroller General, for making continuing improvements in the financial management of Federal Government activities.

"In its accounting and reporting provisions the statute clearly places responsibility upon the Comptroller General for principles, standards, and related requirements; directs the General Accounting Office to cooperate with the executive agencies in the development of their accounting systems and to approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards, and related requirements prescribed by him; and places upon the General Accounting Office the responsibility for the review of accounting systems of the executive agencies. As recognized in the report of the Hoover Commission on Budget and Accounting, the Comptroller General has

equipped himself to carry out these responsibilities through the exercise of his accounting systems function. Particular stress in the report is laid upon the excellent cooperation developed between the General Accounting Office and the executive agencies. No diminution or change in this cooperative working relationship between the General Accounting Office and the executive agencies is contemplated, nor do we presume that any change is intended or implied by the recommendations under discussion.

"Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950 of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards, and related requirements prescribed by the Comptroller General as referred to therein. It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of agency management to be successful. However, the added emphasis on getting the job done governmentwide, contemplated by the above recommendation, could be very helpful in expediting progress if appropriately carried out. Such an effort need in no way be exercised in a manner inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States for the last several years. The essence of this arrangement is the recognition of the fact that each of the central agencies concerned, along with individual executive agencies, has a part to play in the total operation and that the desired results can only be achieved through joint efforts carried out with mutual respect for the responsibilities of each."

Recommendation No. 11

"That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

"(a) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

"(b) To direct the recruitment, training, and development of qualified accounting personnel.

"(c) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

"(d) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

"We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of this recommendation. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies. In the final analysis the responsibility for financial management must necessarily rest upon the head of each executive agency as a part of his total management responsibility. This has been made abundantly clear as a matter of statute in section 113 (a) of the Budget and Accounting Procedures Act of 1950, previously referred to above."

Recommendation No. 12

"That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget.

"This recommendation is one facet of the larger problems commented upon in connection with the two preceding recommendations and is covered by our previous comments."

On July 26, 1955, the chairman of the Subcommittee on Reorganization requested comments and recommendations from all of the major departments and agencies of the Government, however, as of this date, only one agency replied and its comments are included in this memorandum.

In some respects the objectives intended under this bill are analogous to the purpose contemplated by recommendation No. 10 of the first Hoover Commission.

This recommendation follows:

"(a) An Accountant General be established under the Secretary of the Treasury with authority to prescribe general accounting methods and enforce accounting procedures. These methods and procedures should be subject to the approval of the Comptroller General within the powers now conferred upon him by the Congress.

"(b) The Accountant General should, on a report basis, combine agency accounts into the summary accounts of the Government and produce financial reports for the information of the Chief Executive, the Congress, and the public."

In 1950 the Committee on Government Operations held extensive hearings on S. 2054, a bill to implement recommendations of the first Hoover Commission. During these hearings the advantages and disadvantages incident to the establishment of an office of an Accountant General in the Department of the Treasury was considered by the committee and rejected because (1) the Comptroller General, who is an arm of the legislative branch of the Government, has had this responsibility for many years and has performed it satisfactorily, and (2) the surveillance over accounting and fiscal matters are a legislative responsibility, as contrasted to executive department responsibility.

CONCLUSION

It is recommended that action on this proposal be coordinated with other bills pending before the subcommittee, which relate to budgeting and accounting procedures of the Government, and on which separate staff memorandums have been prepared.

GLENN K. SHRIVER, *Professional Staff Member.*

SUBCOMMITTEE ON REORGANIZATION OF THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

STAFF MEMORANDUM NO. 84-2-6, MARCH 16, 1956

Subject: S. 3199 (Payne), to improve governmental budgeting and accounting methods and procedures, and for other purposes.

PURPOSE

This bill (S. 3199) is intended to improve the budget and accounting procedures of the Government by, (1) requiring the departments and agencies to establish cost-based budgets, (2) detailing budget analysts from the Bureau of the Budget to the agencies for coordination of fiscal affairs, (3) maintaining agency accounts on an accrual basis, (4) authorizing the establishment of a Staff Office of Accounting in the Bureau of the Budget, (5) authorizing the establishment of an office of Comptroller in each agency, and (6) requiring the Director of the Bureau of the Budget and Comptroller General of the United States to make a study of the accounting and auditing procedures of the Government and transmit recommendations to Congress within 2 years after enactment of this act.

When this bill was introduced, the sponsor, Senator Payne, stated: "The bill I am introducing today is designed to put into effect the majority of the (Hoover Commission) recommendations * * *. It does include some recommendations that could be carried out by administrative action. While I fully realize the desirability of leaving the executive branch as free as possible in the matter of administration, I also feel that the problem of financial budgeting and accounting is of such importance that the Congress should very clearly set forth the basic requirements by statute" (p. 2198, Congressional Record, dated February 14, 1956).

HOOVER COMMISSION RECOMMENDATIONS

As noted above, this bill is intended to implement the recommendations of the second Hoover Commission in its report on budget and accounting. In general, the bill proposes to place departmental and agency accounting on an accrual basis and insofar as possible convert to a cost basis of accounting with the budgetary requirements integrated with the accounting system.

The Commission recommended that:

1. The Bureau of the Budget expand its managerial and budgetary functions, by placing budget analysts in each agency, for advice, surveillance, and coordination of program and fiscal affairs.

2. The agencies submit annual performance reports to the Bureau of the Budget and the Bureau consolidate such reports for the President.

3. Cost-based operating budgets be used for management of agency funds and supplemented by periodic reports on performance.¹

4. The executive budget be continued on functions, activities, and projects, and supported by program costs and accomplishments.

5. The agencies synchronize their organization structure, budget classification, and accounting systems.

6. Agency budgets be formulated and administered on a cost basis.¹

7. Agency budgets and appropriations be in terms of estimated annual accrued expenditures, i. e., cost of goods and estimated services to be received.

8. Legislation committing the Government to continuing expenditures not susceptible to usual budgetary control be enacted for a limited term in order to require periodic congressional review of their usefulness.

9. The Bureau keep continuing or special programs under continuing review and the President's budget contemplate amendments when their operations conflict with current budgetary policy.

10. There be established a Staff Office of Accounting in the Budget Bureau, with authority to:

(a) promulgate accounting and reporting procedures.

(b) introduce modern accounting methods.

(c) set time schedules for performance and progress.

(d) stimulate the building of competent accounting organization, through the selection and training of accountants.

(e) report performance to the Director of Bureau of the Budget, annually.

11. A position of comptroller be established in principal agencies with authority to:

(a) direct the setting up and maintenance of adequate accounting systems in the agencies.

(b) direct the recruitment and training of accountants.

(c) develop reliable information for internal management, and for Congress.

(d) advise and interpret financial reports.

(e) direct the preparation and review of executive budgets.

12. The Assistant Director for Accounting be given authority to recommend selection of comptroller's, accountants, and training of fiscal personnel.

13. The allotment system be simplified and restrict each operating unit to a single allotment for each appropriation.

14. The Government's accounts be maintained on an accrual basis and develop budgets from this standpoint.

15. After the adoption of accrual and cost accounting systems by Government agencies, the creation or continuation of revolving funds be reviewed to determine whether they add to efficient management.

16. Agencies accelerate the installation of monetary property accounting records as part of the accounting system.

17. Each agency be authorized to maintain one account for each appropriation for liquidation of valid obligations. (S. 3362 will effectuate, in part, this recommendation.)

18. Vouchers which are otherwise valid but chargeable to lapsed appropriations should not be referred to the GAO, as claims, but should be settled by the agencies concerned. (S. 3362 will effectuate this recommendation.)

19. The Comptroller General be given authority to relieve accountable officers of financial liability, except where losses result from gross negligence or fraud. (Effectuated by Public Laws 334 and 365, 84th Cong.)

20. The Budget Bureau and GAO study the accounting system to eliminate duplicate accounting in the Treasury, and in the agencies.²

21. Continuous emphasis be placed on the review and modernization of central fiscal reports of the Treasury, to meet changing requirements of the agencies, the Congress, and the public. These reports should show the Government's cash position.

¹ Recommendations Nos. 3 and 6 could be combined, however the one refers to formulation whereas the other has to do with the execution of the budget.

² Recommendation No. 20 refers to accounting procedures whereas recommendation No. 25 is intended to cover the auditing functions carried on by the various agencies of the Government.

22. Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Budget Bureau responsible for developing comprehensive financial reports.

23. The selection of civilian comptrollers (for the military departments) be made from individuals having broad management and accounting experience.

24. The comptrollers of the military departments be responsible to the Secretary of their department, and the concurrent responsibility to the Chief of Staff or equivalent be discontinued.

25. The Budget Bureau and GAO make a study to determine adequacy of internal auditing in Government agencies, and determine what steps should be taken to improve it.²

It should be noted that three members of the Commission did not agree with the majority on this report. For ready reference the views of the dissenting members are summarized herein.

Commissioner Brown, dissented to recommendation No. 7—the converting of the congressional appropriation structure to an estimated annual accrued expenditures basis.

Commissioners Farley and Holifield filed general dissents to the Commission recommendations because they felt that the recommendations may be good from a theoretical accounting standpoint but questioned whether they would produce the desired results. Commissioner Farley further stated that, “the transition to cost-basis accounting will require tremendous expense and inconvenience, and there is insufficient evidence that it will be universally workable and worthwhile.” Commissioner Holifield stated that “the report tends to exalt the role of the accountant in Government just as the Commission’s report on legal services tends to exalt the role of the lawyer in Government.”

AGENCY COMMENTS

By letter dated March 7, 1956, the Comptroller General submitted his views and comments on this bill to the chairman of the Subcommittee on Reorganization. His recommendations are contained in enclosure (A) which is attached to this memorandum.

STAFF COMMENTS

1. The overall objectives of this bill appear laudable. The preparation and administration of agency budgets on a cost-basis as proposed in section 216 has considerable merit in that it would permit the head of the agency, the Bureau of the Budget, and the Congress, to determine the actual cost of carrying on programs and activities in a businesslike manner. To some extent this is now being done in some agencies and has proven to be workable and effective.

The GAO has approved this type of budgeting and recommended that further amendments be considered to provide for stating appropriations on an accrued expenditure basis.

2. The language contained in section 1 (a) of this bill would not change or improve the existing financial requirements of the Government. This section of the bill would require the Director of the Bureau of the Budget to prepare periodic reports, other than fiscal, showing the financial results of the activities of Government departments, for submission to the President and to Congress.

In view of the fact that each agency is now required to transmit monthly obligation and expenditure reports to the Bureau of the Budget, and the Bureau transmits an annual budget to the Congress, supported by detailed statistics and agency testimony, it is not clear what this section would add to the existing budgetary procedure. In addition, the Appropriations Committees automatically receive reports on and may request additional information on the status of any appropriation or activity at any time throughout the year.

3. The General Accounting Office reported that the type of reports intended under section 216 (b) of the bill is not clear. Most of the departments and agencies now prepare internal operating reports for review and management of programs and appropriations made available by the Congress. The same information is available to the Bureau of the Budget which can analyze, evaluate, or consolidate for any purpose which it deems advisable.

4. The GAO questions the desirability of establishing a Staff Office of Accounting in the Bureau of the Budget as contemplated by section 120 of this bill, because it would “freeze” the organizational structure and prohibit realignment of functions and activities of that part of the Bureau.

A somewhat similar proposal was made by the first Hoover Commission, but after extensive hearings and study the Congress rejected the establishment of an Office of Accountant General in the Treasury Department.

5. The conversion of the budget and accounting system of the Government to an accrual basis has considerable merit, however, there is some reluctance to install the cost accounting concept in all of the departments and agencies at one time. Extensive consideration should be given to this phase of the bill, lest the system be strangled by legislative restrictions or statutory limitations thereby defeating the purpose for which intended.

GLENN K. SHRIVER,
Professional Staff Member.

ENCLOSURE A

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, D. C., March 7, 1956.

Hon. JOHN F. KENNEDY,

*Chairman, Subcommittee on Reorganization,
Committee on Government Operations, United States Senate.*

DEAR MR. CHAIRMAN: Your letter of February 21, 1956, acknowledged February 23, requests our views and recommendations on S. 3199, 84th Congress, which would carry out various recommendations in the Report of the Hoover Commission on Budget and Accounting.

Section 1 (a): This section, which relates to additional comprehensive reports other than purely fiscal reports to be prepared by the Director, Bureau of the Budget, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involves management decisions affecting the Bureau. While these are matters that can best be determined by the Bureau and the Congress, we believe that this information should be obtained through the regular budgetary processes and included in the President's annual budget.

Section 1 (b): This section would amend section 216 of the Budget and Accounting Act, 1921. If cost based budgets were used for management purposes in making fund allocations within the departments and establishments as proposed by section 216 (a), the information submitted by the departments and establishments to the Bureau of the Budget for budgetary purposes would be substantially more meaningful. This would permit periodic reports on accomplishments or performance to be related to budgets in terms of costs, the advantages of which are discussed more fully in our comments on the proposed amendment to section 216 (c). We endorse this proposal.

As to the proposed section 216 (b), we believe the President should be kept informed in a timely manner of significant factors relating to the operating agencies of the executive branch. The annual consideration of the budget of each agency serves as the basis for a review of operations. While the type of annual report intended under the proposed section 216 (b) is not entirely clear; the desirability of a separate report for the executive branch as a whole seems questionable. We are inclined to think that the total Government area is so broad that information and evaluation is ordinarily most meaningful at the major program or bureau level. We believe that this information should be obtained by the Bureau of the Budget to the extent deemed necessary through the regular budgetary processes and could be submitted in support of the annual budget without the enactment of specific legislation.

The proposed sections 216 (c) and (d), if effectively carried out, would offer a great opportunity for improvement in the financial management of executive agencies. The background discussion and explanation for recommendation No. 6 in the reports of the Hoover Commission and its Task Force on Budget and Accounting explains the need for this amendment and need not be repeated here. Briefly, the more important advantages are:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.

2. A proposed work plan (budget) stated in terms of costs (total resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.

3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.

4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures, and costs in those many operations primarily concerned with personal services. On the other hand, dollarwise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction, and research and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances. However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. This would provide the best opportunity for improved correlation of programming, budgeting and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis for the reasons stated below.

Accrued expenditure appropriations. Congressional control of costs and expenditures can only be achieved by the maximum utilization of many tools. Budgeting on a cost basis and placing the executive budget and congressional appropriations on the basis of annual accrued expenditures can be made important tools for the Congress if effectively installed.

The basic need of the Congress is adequate factual data as a basis for decision making. The facts furnished to the Congress can be no better than those available to the management for its own purposes, that is, the needs of the two for financial and operating data, although differing as to extent of detail, are entirely compatible. It seems reasonable to conclude that the best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in terms of (a) costs to be incurred, (b) resources already available in terms of inventories, etc., plus carried over funds, and (c) new money or authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority is the degree of emphasis which the latter places on new money rather than total resources to be consumed and the extent of resources already available.

In the operations concerned primarily with salaries and travel expense the time relationship between the creation of an obligation and an expenditure is relatively short. In such circumstances, resources available other than new money are ordinarily of no great significance and there is ordinarily a rather direct correlation between obligations, expenditures and costs. These are the operations which represent the larger group in terms of numbers but represent the less significant portion of the budget from a dollar standpoint. In the area of operations where long lead time is characteristic such as, major procurement, construction, and research and development, which represent the greater dollar portion of the budget, obligation and expenditure data have their greatest limitations for both Congress and management.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or deficit is determined on the basis of expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress a much

greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies. The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

On the intangible side, it has often been pointed out that there is, perhaps, an unavoidable implication that funds which have not been obligated are either not needed or are available in lieu of new money. This, of course, is a fallacious assumption when total authority is granted in a lump sum initially for activities involving long leadtime such as ship construction. Nevertheless, attention may well be diverted from the question of accomplishments at a minimum cost over the period of the program to the one of almost sole emphasis on the amount of new money being requested. In the past, it has sometimes been said that expenditures are the inevitable result of granting obligation authority with the attendant implication that once having granted obligation authority all opportunity for subsequent adjustment is lost. An examination of present day practices in the long lead-time area (procurement, construction and research and development) demonstrates the obvious fallacy of this reasoning as evidenced by the extensive reprogramming, multitudinous changes in engineering plans and specifications during the period of production of many items and other similar factors. Because of these inherent factors in the operations involved, cost budgets, teamed with appropriations on an accrued expenditure basis, would require a type of continuing budget presentation that would bring out the adequacy of management planning or the lack of it and give the Congress an opportunity to have a voice in setting the level of operations from year to year.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed contract authorizations but it is a significant fact that heretofore both contract authorizations and subsequent appropriations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult to apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor. It is essential that the initial authority which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

Section 1 (c). The proposed section 218 of the Budget and Accounting Act, 1921, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involve management decisions affecting that Bureau. We believe these are matters which can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Section 2 (a). Our comments above on the proposed sections 216 (c) and (d) are equally applicable to this section 2 (a). We, therefore, endorse the objective to obtain consistency in organizational structure, budget classifications, and accounting systems within each executive agency.

Section 2 (b). We endorse this amendment to section 113 of the Budget and Accounting Procedures Act of 1950. The maintenance of accounts on an accrual basis is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. Experience under the joint accounting improvement program clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data. Our statement of accounting principles provides for the appropriate use of the accrual basis. We also believe that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other proposed amendments such as accrual accounting, cost budgeting, etc., as well as the spe-

cific advantages to management which will result from adequate financial accounting for property.

Section 2 (c). The proposed section 120 of the Budget and Accounting Procedures Act of 1950 would establish a Staff Office of Accounting in the Bureau of the Budget. The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget and the Comptroller General, for making continuing improvements in the financial management of Federal Government activities.

In its accounting and reporting provisions the statute clearly places responsibility upon the Comptroller General for principles, standards, and related requirements; directs the General Accounting Office to cooperate with the executive agencies in the development of their accounting systems and to approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards, and related requirements prescribed by him; and places upon the General Accounting Office the responsibility for the review of accounting systems of the executive agencies. As recognized in the report of the Hoover Commission on Budget and Accounting, the Comptroller General has equipped himself to carry out these responsibilities through the exercise of his accounting system function. Particular stress in the report is laid upon the excellent cooperation developed between the General Accounting Office and the executive agencies. No diminution or change in this cooperative working relationship between the General Accounting Office and the executive agencies is contemplated, no do we presume that any change is intended or implied by the recommendations under discussion.

Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950 of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards, and related requirements prescribed by the Comptroller General as referred to therein. It is our view that primary reliance must, of necessity, continue to be placed upon the head of each executive agency because of the fact that accounting is an integral part of total management responsibility and any effort to obtain improvements must have the full support of agency management to be successful. Added emphasis on getting the job done Government-wide could be very helpful in expediting progress if appropriately carried out. We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of Assistant Director for Accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

Such an effort need in no way be exercised in a manner inconsistent with the joint accounting improvement program carried on jointly by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States for the last several years. The essence of this arrangement is the recognition of the fact that each of the central agencies concerned, along with individual executive agencies, has a part to play in the total operation and that the desired results can only be achieved through joint efforts carried out with mutual respect for the responsibilities of each.

The new section 121 of the Budget and Accounting Procedures Act of 1950, also proposed by section 2 (c) of the bill, would provide for the appointment of a comptroller in each executive agency. We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of the proposed section 121. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies. In the final analysis, the responsibility for financial management must necessarily rest upon the head of each executive agency as a part of his total management responsibility. This has been made abundantly clear as a matter of statute in section 113 (a) of the Budget and Accounting Procedures Act of 1950, previously referred to above.

Section 3. The simplification of the allotment system for allocating funds is sound and most desirable. The existing unwarranted subdivision of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego the type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accounting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Section 4. This section would require each executive agency to maintain a single account under each appropriation title or fund. We endorse the objective of this proposal but feel that it should be adopted for only appropriations or funds which are stated on an accrued expenditure basis. The Senate Committee on Government Operations is presently considering proposed legislation which would permit the consolidation of all prior year obligations under each annual appropriation into one account thereby requiring only two accounts—one current account and one for prior year obligations—under each annual appropriation title. We strongly favor the use of two accounts where such accounts are not stated on an accrued expenditure basis.

Section 5. This section would provide for a joint study by the Bureau of the Budget and the General Accounting Office relating to accounting and internal auditing. Much has been accomplished in these areas in the past by the General Accounting Office both on its own and under the joint accounting improvement program with the Bureau of the Budget and the Secretary of the Treasury. This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities. We expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting processes, but we would be pleased to cooperate with the Congress in any special effort having as its objective the improvement of accounting and internal auditing.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

SUBCOMMITTEE ON REORGANIZATION OF THE COMMITTEE ON GOVERNMENT OPERATIONS
Agency comments on S. 3199—Section by section

Section	Bureau of the Budget	General Accounting Office	Treasury Department
<p>1 (a) Requires Director of the Bureau of the Budget to prepare comprehensive reports, other than fiscal reports, showing the financial results of activities of Government agencies.</p> <p>1 (b) Requires all executive agencies to establish cost-based budgets.</p> <p>Requires internal quarterly performance reports to the heads of all agencies; annual agency reports on conduct of operations to the Bureau of the Budget to the President.</p> <p>Directs the preparation of appropriation requests on a cost basis.</p> <p>Requires that the annual budget show program costs, accomplishments, and performance.</p> <p>1 (c) Authorizes the Director of the Bureau of the Budget to assign budget analysts to the principal executive departments to maintain a continuous review of budget preparation and administration.</p> <p>2 (a) Provides for greater consistency in agency structure, budget classifications, and accounting systems.</p> <p>2 (b) Requires each executive agency to maintain an accrual accounting system, including appropriate monetary property accounts.</p> <p>2 (c) Provides for establishment in the Bureau of the Budget of a Staff Office of Accounting, headed by an Assistant Director of Accounting, to develop an overall accounting system.</p> <p>Provides for the establishment in each executive agency of an Office of Comptroller to supervise accounting and auditing operations, as prescribed by the Assistant Director for Accounting.</p>	<p>Recommends that this section be deleted, because it would duplicate reports prepared by the Secretary of the Treasury.</p> <p>Notes that joint accounting program is developing integrated system of financial reporting.</p> <p>Is in basic agreement with the objectives of the section, subject to certain qualifications set forth on p. 2 of the Bureau of the Budget statement, attached as appendix I.</p> <p>Points out that objectives sought by this section can be implemented without specific legislation as proposed in S. 3199.</p> <p>Recommends against enactment because it would disturb Bureau of Budget's relations with agencies in developing executive budget.</p> <p>States legislation is unnecessary as objective is presently being met.</p> <p>In agreement with objectives, but points out that accomplishment is a long-range program.</p> <p>Objects.</p> <p>Recommends deletion of section.</p> <p>States Bureau is presently expanding its accounting group to accomplish the objectives sought.</p> <p>Objects to Congress prescribing internal organization for financial management in executive agencies as counter to recognized principle of organizational flexibility.</p> <p>Also objects to Presidential appointment of Assistant Director of Bureau of the Budget, now appointed by the Director of the Bureau.</p>	<p>Leaves determination of necessity to Bureau of the Budget.</p> <p>Suggests such information be obtained through the regular budgetary processes and also be included in the President's annual budget.</p> <p>Endorses cost-based budgets for fund allocation within agencies.</p> <p>Recommends amendment to provide for stating appropriations on accrued expenditure basis, as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting.</p> <p>Doubts necessity for separate operational report to President on performance of agencies.</p> <p>No specific comment.</p> <p>Endorses the objective of the section as an improvement in financial management of executive agencies.</p> <p>Endorses enactment as major factor in financial control.</p> <p>Does not believe that specific legislation is required in order for the Bureau of the Budget to accomplish the objectives of the section.</p> <p>Questions the desirability of establishing an Assistant Director for Accounting in the Bureau of the Budget by statute.</p> <p>Doubts wisdom of appointing Comptroller in each agency because of wide divergence in existing organizational pattern of the various agencies.</p> <p>Endorses the general emphasis placed upon improved financial management in each executive agency.</p>	<p>States there is no real necessity or advantage to make the Bureau of the Budget instead of the Treasury Department the operating center for accounting and financial reporting.</p> <p>Is in general agreement with the objectives of section 1 (b).</p> <p>Doubts that the advantages would warrant added expense.</p> <p>Is in general agreement.</p> <p>In general agreement.</p> <p>Objects to the creation of an Assistant Director for Accounting because it would overlap present statutory duties of the Comptroller General, and would infringe upon responsibilities of the respective executive agencies.</p> <p>Objects to statutory establishment of Comptroller in executive agencies because it would dilute the responsibility of the heads of agencies over their staffs.</p> <p>States if position of Comptroller necessary or desirable, Secretary of Treasury now has authority to establish it.</p>

SUBCOMMITTEE ON REORGANIZATION OF THE COMMITTEE ON GOVERNMENT OPERATIONS—Continued
Agency comments on S. 3199—Section by section—Continued

Section	Bureau of the Budget	General Accounting Office	Treasury Department
<p>3. Provides for simplification of the allotment system for allocating funds to operating units within executive agencies.</p> <p>4. Requires each agency to maintain a single account under each appropriation title or fund.</p>	<p>Has no objection to section, but declares effective progress is presently being made and implies can be effectuated through administrative action.</p> <p>Approves but recommends enactment of S. 3362 which incorporates objectives of sec. 4, and provides that all prior-year accounts be kept separate from current appropriations to avoid augmentation of current year funds.</p>	<p>Endorses as a sound factor in improved financial control.</p> <p>Endorses the objective, but believes it should be adopted for only appropriations or funds which are stated on an accrued expenditure basis.</p> <p>Strongly recommends two accounts where not stated on an accrued expenditure basis.</p> <p>Points out objectives are now being accomplished by GAO, Bureau of the Budget, and Treasury through joint accounting program.</p>	<p>In general agreement.</p> <p>Treasury collaborated in drafting S. 3362 which incorporates sec. 4. Approves its objective.</p>
<p>5. Requires Comptroller General and Bureau of the Budget to conduct a joint study to eliminate duplications in the Government's accounting procedures.</p>	<p>Opposes enactment of section.</p> <p>States joint accounting program is accomplishing objectives.</p>		<p>Does not believe additional studies necessary.</p>

Source: Miles Scull, Jr., Subcommittee on Reorganization, professional staff member.

The first witness this morning will be Mr. William F. Finan, Assistant Director for Management and Organization of the Bureau of the Budget.

Mr. Finan, I understand, is accompanied by Mr. William J. Armstrong, Chief of the Accounting Group, of the Office of Management and Organization of the Bureau of the Budget.

Senator KENNEDY. Would you care to proceed, Mr. Finan?

STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR MANAGEMENT AND ORGANIZATION, ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING GROUP, BUREAU OF THE BUDGET

Mr. FINAN. Mr. Chairman, on March 16, the Director of the Bureau of the Budget reported to your subcommittee rather extensively on S. 3362. In fact, in so much detail that we felt that it would be unnecessary and redundant for me to have a prepared written statement on this bill.

If you desire I will be glad to read the Director's comments on this bill into the record, or if the members of the subcommittee have had an ample opportunity to review his comments, we can confine our testimony to the answering of questions. (See p. 29 for letter from Director of the Bureau of the Budget, dated March 16, 1956.)

Senator KENNEDY. Perhaps it would be possible for you to summarize the recommendations.

Mr. FINAN. In brief, Mr. Chairman, at the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made.

The bill would authorize the Comptroller General to prescribe by regulation the conditions under which such payments may be made, without prior review by the General Accounting Office. This arrangement would produce savings by eliminating the duplicate review that is presently involved.

We also believe that it would create a situation in which payments could be made more promptly.

Also, at the present, the entire balance of each appropriation, both the obligated and the unobligated portions, are now carried on the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the proposed bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months after the close of the fiscal year in question, thus reducing the carryover of unexpended balances.

Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes, and thereafter for at least 8 more years on a memorandum basis. Additionally, after 2 years the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment.

The proposed bill would bring about a very large reduction in the number of accounts to be maintained, both by the individual operating agency, and by the General Accounting Office. Under the provisions of the bill the obligated balances of expired accounts for prior years for the same general purposes would be merged, so that usually each current year appropriation account would have a single counterpart for prior year items. For the General Accounting Office alone it is estimated that about 35,000 accounts could be eliminated under the provisions of this bill.

Also, at present payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the certified claims account maintained by the Treasury Department. One of the results of this arrangement is that such expenditures are reported as expenditures of the Treasury Department, although the benefits were received by other agencies. Thus, several hundred millions of dollars are budgeted and reported as the cost of the function of general Government when actually in large part this amount is for major national security and other functions. The proposed bill would permit the correction of this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

Finally, the bill provides that the Comptroller General shall in connection with his audit responsibilities make an appraisal of the unliquidated obligations. This arrangement emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of agency accounts.

I think that summarizes about as briefly as possible, Mr. Chairman, the effect that this bill would have on the situation that exists at present.

Senator KENNEDY. Senator Cotton, do you have any questions to ask?

Senator COTTON. No questions.

Senator KENNEDY. Mr. Finan, perhaps you could explain simply for the benefit of the subcommittee exactly how the procedure is handled now.

As I understand, these balances are kept for a period of 2 years to liquidate any bills that may come in; is that correct?

Mr. FINAN. That is correct, sir.

Senator KENNEDY. And any payment you make after the fiscal year during this period must be cleared by the General Accounting Office; is that correct?

Mr. FINAN. It is, after 2 years.

Senator KENNEDY. After 2 years?

Mr. FINAN. After 2 years have expired; yes, sir.

Senator KENNEDY. Out of these moneys that you carry over, must those claims be cleared by the GAO?

Mr. FINAN. Yes, sir.

Senator KENNEDY. Under the present arrangement, must the amount be put in the supplemental appropriation to take care of the bill?

Mr. FINAN. No, it is not handled that way at present. This is money that has been appropriated, and was obligated during the period permissible by law, but for one reason or another there is a timelag, subsequent to that.

Let us say that an item has been purchased; there may be a considerable period up to the time where the item is delivered and the seller actually bills the Government. If that period of time exceeds 2 years, then you have a claim which must be handled by the GAO, even though for all other purposes it may have been a routine transaction and that delay may have been a perfectly proper and normal delay.

Senator KENNEDY. Where does the GAO get the money—does it have to get it in supplemental appropriations?

Mr. FINAN. It comes out of what is known, Mr. Chairman, as the certified claims account, which is maintained by the Treasury Department.

If you would like to get into the real technical details, so to speak, of this, and it is quite a technical matter, I would like to ask Mr. Armstrong, who is the head of our accounting group, and who has been working on this matter quite intensively now over a considerable period of time, to discuss it.

Senator KENNEDY. Perhaps it would be helpful if you would give us the present procedure, and then the procedure as it would be under the bill.

Mr. ARMSTRONG. On annual appropriations, 2 years after the year for which the appropriation is made, the balances of those appropriations are transferred to the certified claims account of the Treasury Department.

When bills come into an agency after those balances are transferred, the agency examines the bill and determines whether it is a proper payment. But the agency cannot pay it at that time. The bill has to be transmitted to the GAO, where another review is made. If GAO finds it proper, they certify it for payment. Such payment is made from the appropriation maintained by the Treasury Department, the certified claims account.

So the payment really shows up as an expenditure of the Treasury Department, whereas the goods may have been received by some other department.

Senator KENNEDY. Under the arrangement proposed in this bill, the agency itself would be able to make the expenditure without getting the clearance.

Mr. ARMSTRONG. Yes, it would. Under this bill the arrangement would be this: Within 90 days after the end of the fiscal year for which the appropriation is made, the balance of the appropriation as of June 30, would be divided two ways: That portion which was not obligated—

Senator KENNEDY. After September 30; would it not be?

Mr. ARMSTRONG. It is as of June 30—the condition on June 30—but the transfer has to be made by September 30. The unobligated portion of the appropriation would be withdrawn. In other words, the carry-over would be reduced by that amount, because there were no obligations incurred against that balance.

The remainder would be put into one account combining that year with the prior years. Therefore, there would be one consolidated account for the same general purposes for prior years under each title of appropriation. And that would remain available for the payment of bills by the agency itself.

If a bill came in 2, 3, or 4 years after an appropriation expired for obligation purposes, the agency could pay it, provided that it is a proper claim.

The Comptroller General will, by regulation, prescribe the conditions under which agencies may pay claims. If there are questions of law involved or if a claim is otherwise questionable, he may still require it to come to the GAO for settlement, but the great majority of claims can be paid directly by the agencies themselves.

Also, this arrangement will enable expenditures to be charged against the agencies which incurred the obligations rather than having them recorded as expenditures of the Treasury Department.

Senator KENNEDY. There are about 38,000 of these claims yearly; is that correct?

Mr. ARMSTRONG. The General Accounting Office, I think, has information as to the number, but I have some information here as to the transactions within the certified claims account over the past 6 years.

This certified claims account was set up in 1949. In 1955, there were payments out of that account that amounted to \$119 million; in 1954, \$192 million; in 1953, \$110 million, and so forth. Since 1950 there has been a total of \$570 million in payments made from that account. You might be interested, too, in the amounts of the balances of appropriations that were transferred into that account. From 1950 to 1955, they amounted to \$5,637 million.

This bill withdraws immediately within 90 days after the end of the year the unobligated portion of the appropriations. We hear a lot of talk about these large carryover balances. This will reduce those by taking off immediately the portion that is not obligated and leaving an amount equal to the portion that is obligated to pay outstanding bills.

Senator COTTON. Is there any danger or possibility that the fact that this has to be done will cause agencies to make hasty commitments prior to the end of the year in order to make use of their appropriations and not have it revert?

Mr. ARMSTRONG. Well, I do not know that it would add in that respect. The same situation exists today where they cannot further obligate the balances of annual appropriations after the year ends.

Senator COTTON. They could do it, anyway?

Mr. ARMSTRONG. I do not think this would change that.

Mr. FINAN. This would make no difference, Senator, in the availability of this money for obligation after the end of the fiscal year.

At the present time the money ceases to be available for obligation at the end of the fiscal year and that situation would remain unchanged under the terms of this bill.

Senator KENNEDY. If it would no longer be necessary for the agency to present these claims, it seems to me it might make them less anxious to do what Senator Cotton was concerned about, that is to attempt to make hasty judgments because it would not pass out of their control into this certified claim fund.

And the only way they could get it back would be through the special claims that have to be approved by the special agencies. Is that correct or not?

Mr. FINAN. I do not believe it would make any difference in that respect, either, Mr. Chairman. The issue involved here really in-

volves the expenditure of money to which the Government is already committed.

This issue of obligation authority actually, as you know, runs to the authority of an agency to commit the Government to spend.

This bill has no direct effect one way or the other, in either case the authority to commit the Government to spend against a given appropriation, to obligate the money, expires at the close of the fiscal year in question.

Senator COTTON. In other words, this is a mere matter of book-keeping rather than any change in policy?

Mr. FINAN. I think that is a fair statement.

Mr. ARMSTRONG. Yes, I think it would be fair to say that it is a simplification of procedures. It eliminates one audit review, it consolidates the number of accounts, and it gets expenditures recorded where they were actually incurred.

In other words, it is largely a procedural simplification measure.

Senator KENNEDY. Does this proposal decrease the number of supplemental or deficiency appropriation requests or will it have any affect on them?

Mr. FINAN. It should not have any effect on it, Mr. Chairman. There is an outside possibility that under very unusual circumstances it might actually increase the number of supplemental appropriations to a very slight degree.

Without experience it would be very difficult to estimate that with any degree of precision.

It is our judgment that it would really have no significant effect on it. But because one of the provisions of this bill is that in the event it is necessary to pay a bill, so to speak, which turns out unexpectedly to be larger than was anticipated, and which would exceed the amount of expenditure authority available in this liquidation account, you could make up the difference by transfer from the current year appropriation.

Under those circumstances, under extreme and, as far as we can see, most unusual conditions, it might be necessary to make a transfer out of a current account of sufficient size as to impair the agency's ability to carry out its current year's program, in which event they would have a basis for requesting a supplemental appropriation.

Senator KENNEDY. You are satisfied—the Administration is satisfied that this bill will be a worthy improvement in the present procedures, is that correct?

Mr. FINAN. We feel very strongly that it will, yes, sir.

Senator KENNEDY. I understand this bill has been coordinated by the Bureau of the Budget with all of the agencies. Does that include the Department of Defense?

Mr. FINAN. Yes, sir. I understand a Department of Defense witness will be here this morning to express certain reservations about the provisions of this bill insofar as they apply to the Department of Defense.

Senator KENNEDY. Are there any more questions?

Mr. SHRIVER. Yes, Mr. Chairman, if I may ask a question, I would like some clarification as to the meaning of the language shown at the top of page 4 of the bill and the examination of this account contem-

plated by the provisions of subsection (c), beginning on line 11, page 5, of the bill.

Would you explain to the subcommittee the relationship between those two references in the bill; as to whether or not the examination will be made of the consolidated account and the annual account balances, or merely of the operations of the new account to be established under this bill.

Mr. FINAN. Your first reference starts on the bottom of page 3?

Mr. SHRIVER. No, it starts on the top of page 4, section 3 (a).

Mr. FINAN. Do you want to comment on this?

Mr. SHRIVER. Yes, it says that the accounts established pursuant to this act shall be reviewed periodically but at least once each fiscal year, by each agency concerned.

Is that intended to be an examination of each account or the consolidated appropriation account?

Mr. ARMSTRONG. That would be an examination of the unliquidated obligations under the consolidated account for the prior years, and for the current year those obligations outstanding on June 30 which would by September 30 go into the consolidated account for each title of appropriation.

Mr. SHRIVER. The examination would be made by each agency?

Mr. FINAN. That is correct.

Mr. SHRIVER. Now, the examination on page 5 would be made by the GAO, is that true?

Mr. FINAN. Yes, correct.

Mr. SHRIVER. Thank you, Mr. Finan.

Mr. ARMSTRONG. You were also speaking, with reference to the top of page 4, of that provision which says that this act does not take away from the GAO any of its present authority to render decisions in connection with any matters pertaining to claims. In other words, if an agency wants to ask the GAO for a decision on a claim it shall continue to do so, the point being that nothing in this act takes away from the General Accounting Office any of the responsibility that it now has in connection with the settling of accounts and claims.

Mr. SHRIVER. Now, would you explain to the subcommittee the method of handling overages and shortages in the estimated obligations; that is, how you propose to handle the adjustments for over- and under-estimated obligations?

Mr. FINAN. I am not quite sure that I understand that question, Mr. Shriver, as it relates to this bill.

Mr. SHRIVER. I had in mind a letter or analysis of the bill from the Bureau of the Budget which shows that where you have estimated an obligation which is later determined to be in excess of the amount required, and in other instances where you under-estimated the amount required, the overages and shortages, would be set off against each other.

The analysis which I had in mind follows:

PRESENT PROCEDURES

Where the payment of old obligations exceeds the amount previously recorded for the obligation on an estimated basis, action may be required to make a deficiency appropriation if there is an insufficient balance unobligated in the particular year's account involved. Sometimes deficiency appropriations are necessary for accounts which expired 5 or 6 years earlier.

PROPOSED PROCEDURES

No deficiency appropriation would be required for these purposes. Overruns in the liquidation of obligations of 1 older year could be met from savings and liquidations of obligations from some other year. Where obligations overrun the balance in the prior year's account combined, a transfer would be made from the current year appropriation, and any additional appropriations needed would be made to the current year account.

Mr. FINAN. That is correct. That is our assumption by reason of this consolidation into one account.

Mr. SHRIVER. Very well. Thank you.

Senator KENNEDY. Thank you very much, Mr. Finan and Mr. Armstrong. We appreciate your coming here this morning. I will place the letter from the Director of the Bureau of the Budget in the record at this point.

(The letter is as follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 16, 1956.

HON. JOHN F. KENNEDY,
*Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate, Washington 25, D. C.*

MY DEAR MR. CHAIRMAN: In response to conversations which staff of the Bureau have had with staff of your committee, we are submitting views and comments on S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill would substantially carry out the objectives of recommendations Nos. 17 and 18 of the Commission on Organization of the Executive Branch of the Government in its report on budget and accounting.

We heartily endorse the objectives of the bill which would bring about improvements and simplifications in accounting and in the procedure for the payment of obligations against expired appropriations. More specifically, some of the major benefits which would result from the bill are as follows:

1. At the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made. The bill would authorize the Comptroller General to prescribe by regulations the conditions under which such payments may be made without prior review by the General Accounting Office. This would bring about savings by eliminating the duplicate review. Also payments could be made more promptly.

2. The entire balance of each appropriation (both the obligated and the unobligated portion) is now carried in the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months thereafter, thus reducing the carryover of unexpended balances.

3. Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes and thereafter for at least 8 more years on a memorandum basis. In addition, after 2 years, the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment. This bill would bring about a large reduction in the number of accounts to be maintained both by the agencies and by the General Accounting Office. Under its provisions the obligated balances of expired accounts for prior years

for the same general purposes would be merged so that usually each current year appropriation account would have a counterpart for prior year items. For the General Accounting Office alone, it is estimated that about 35,000 accounts could be eliminated.

4. Under present practices payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the certified claims account maintained by the Treasury Department. The result is that such expenditures are reported as expenditures of the Treasury Department although the benefits were received by other agencies. Thus several hundred millions of dollars are budgeted and reported as a cost of the function of general Government when actually a large part of this amount is for major national security and other functions. The bill would correct this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

5. The bill provides that the Comptroller General shall, in connection with his audit responsibilities, make an appraisal of the unliquidated obligations. This emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of the accounts.

In the interests of clarifying and otherwise improving the bill, we would suggest consideration of the following amendments:

1. Delete the words "except as otherwise provided by law" on page 1, line 3, and in lieu thereof add the following new paragraph to the repeals on page 7, section 7:

"(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957." At the present time there are some cases where existing provisions of substantive law continue the availability of appropriations for expenditure purposes for periods longer than the normal 2-year period after the period for which the appropriations are made. It is desirable, therefore, to bring such appropriations under the provisions of this bill in order to provide the authority to make payments subsequently. An example is the provision for certain research appropriations in the Agricultural Marketing Act of 1946. The language, which we suggest for deletion above, would exempt such cases from the provisions of the bill whereas the substitute would embrace such cases within the terms of the bill by repealing the special provisions providing extended availability for expenditure. Like the provision repealing the general authorization for extended availability for expenditure (subsec. (b) of sec. 7), the suggested language would not be effective until June 30, 1957. However, the suggested language would not repeal provisions for extended expenditure availability contained in 1956 or 1957 appropriation acts, but would leave the matter of extended expenditure availability for these appropriations to be considered individually in acting on 1958 budget estimates and appropriation acts.

2. Delete the word "activity" on page 1, line 8, and substitute "agency or subdivision thereof." We believe the substitute would clarify the meaning.

3. On page 2, lines 22 and 23, delete the words "as of the close of the fiscal year" and insert the same words after the word "account" on page 2, line 20. This change would clarify the point that the reviews of the accounting records required by section 1311 and the related reports pertain only to the obligated balance as of the close of the fiscal year.

4. Delete the words "required pursuant to subsection (a)" on page 3, lines 10 and 11, and substitute "made pursuant to subsections (a) and (b)." This would make it clear that September 30 is intended as the final closing date for action to be taken under section 1 (d).

5. Delete the words "activity responsible for the liquidation of the obligations chargeable to such accounts" on page 4, lines 7 and 8, and substitute "agency concerned." We believe "agency" would be more meaningful than "activity" and that the remainder of the clause is not necessary.

6. Delete the word "activity" on page 6, line 9, and substitute "agency or subdivision thereof" for the reason noted in 2 above.

7. Delete the words "or will not be undertaken or continued" on page 6, lines 16 and 17. These words might carry the implication that the heads of the agency concerned could determine whether or not to carry out work specifically authorized by the Congress.

8. On page 7, add the following new section :

"SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

This new section provides that the Congress may consider each year the desirability of exempting any appropriation or appropriations from the provisions of this bill and so provide in appropriation acts without such provisions being subject to a point of order.

The amendments suggested above have been discussed with staff of the Treasury Department and the General Accounting Office, who concur therein. With these amendments, we strongly recommend the enactment of S. 3362, which would improve fiscal operations and bring about economies.

Sincerely yours,

PERCIVAL BRUNDAGE, *Acting Director.*

Mr. FINAN. Thank you.

Senator KENNEDY. Mr. W. J. McNeil, Assistant Secretary of the Department of Defense, is our next witness.

We are glad to have you here, Mr. McNeil. Will you identify the gentlemen with you.

Mr. McNEIL. Mr. Howard Bordner, who is the deputy comptroller for accounting policy, in the Department of Defense, and Mr. Maurice Lanman, who is assistant general counsel, assigned to fiscal matters.

Senator KENNEDY. Very well. You may proceed.

STATEMENT OF HON. W. J. McNEIL, ASSISTANT SECRETARY (COMPTROLLER); ACCOMPANIED BY MAURICE H. LANMAN, JR., ASSISTANT GENERAL COUNSEL (FISCAL MATTERS), AND HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE

Mr. McNEIL. I have a short statement, Mr. Chairman. And a moment ago, in answer to a question, I believe Mr. Finan mentioned that we had certain reservations and I might touch on those also, if it pleases the subcommittee.

Senator KENNEDY. Fine.

Mr. McNEIL. I appreciate the opportunity to appear before you this morning to discuss certain legislative proposals to implement the various Hoover Commission recommendations. It is my understanding that the first bill under consideration is to be S. 3362. This bill is apparently intended to implement two of the Hoover Commission recommendations, Nos. 17 and 18.

Recommendation No. 18, which would provide for the agencies having jurisdiction over the funds to settle all claims arising under appropriations after they have expired for obligation rather than to have such claims settled upon certificates of the GAO is concurred in by the Department of Defense completely.

It is our belief that no useful purpose has been served in having agencies receive claims, develop them, determine the amounts due, and submit them to the Comptroller General for a practically pro forma consideration and then have them returned to the agency and paid by the agency's disbursing officers. Therefore, we believe that this recommendation will obviate currently unnecessary operation in the settlement of claims from the certified claims account.

With respect to the other aspect of S. 3362, which is apparently an attempt to implement recommendation No. 17 that all obligations be liquidated from a single account, we should like to point out that the bill moves only part of the distance in the direction of this worthwhile objective.

We would hope that the recommendation will be eventually literally implemented but only after your subcommittee has thoroughly considered many of the more important aspects of the Commission's recommendations represented in some of the legislation upon which you plan to take testimony.

You will note that the bill provides for transfer on September 30 of each year of only those amounts certified as having been obligated under section 1311 of the Supplemental Appropriation Act as of any June 30. This latter section was a recent enactment into law of statutory definition of obligations which the Department of Defense believes was a long overdue measure necessary to correct the erroneous as well as the unsound practices with respect to recording and reporting obligations that had been going on in the executive departments for decades.

The Department considers this section as a landmark in progress toward a uniform basis for accounting and reporting for appropriated funds. After some initial delay in preparing and securing the approval of the accounting officers for our regulations under this statute, we are now in the process of applying it worldwide to all activities of the Department of Defense.

As I am sure you will understand, corrective measures of this scope, when applied to the complexities of accounting for and reporting on the obligations and expenditures within the Department of Defense, running in excess of \$30 billion, cannot succeed overnight.

We have been working diligently since the enactment of the statute and believe that within the next year or two the educative process and our job in this area will be completed.

Our problem in carrying out the provisions of 3362—that is, other than the certified claims—arises from the fact that there are very large adjustments of unliquidated obligations in the Department of Defense after the end of the fiscal year. For instance, adjustments which may arise from the maturing of contingent liabilities arising out of all types of contracts including variation in quantity clauses, price redetermination, and escalation clauses, as well as in the incentive and cost reimbursement type contracts.

In addition, other significant factors require adjustments in our obligations which are often based on the best estimates available, in accordance with regulations issued under section 1311, approved by the GAO.

We have generally resolved most of these problems by the utilization of no-year appropriations in the Department of Defense but to the extent that the problems exist in annual appropriations, to which this bill is largely applicable, we recommend that serious consideration be given to clarifying the provisions of the bill with respect to the limitations on the amounts to be carried over and the manner in which these adjustments are to be effected in Department of Defense appropriations after the close of the fiscal year and prior to the transfers contemplated to be made on September 30.

As I previously stated, it is our hope that recommendation No. 17 will be fully and literally implemented but it is our view that it would represent only one minor aspect in the implementation of the many more sweeping recommendations of the Commission as included in the more comprehensive bill, S. 3199, and should more properly be considered in the light of conclusions reached on that legislation. It is understood your subcommittee is also planning to discuss that bill.

In conclusion, I should like to state that we feel that the implementation of recommendation No. 18 would occasion no problems in the Department of Defense and we would concur in the immediate enactment of provisions to accomplish it.

We feel there should be some further consideration of the problems of the amounts carried over as of any June 30 which takes into account the ability to revise obligations as certified on June 30 under section 1311, which can be justified.

That is an adjustment that can be proven to be necessary, as well as taking into account any obligations which do not require the full amount in liquidation.

We feel that even though the amounts carried over might some years be about the same amount, but no one knows. To the extent that amounts might have to be paid from future budgets it encourages something we are trying desperately, in the Department of Defense, to avoid, that is, the padding or adding of too many contingencies to future budget requests. We are bound to have them if we are to provide for subsequent proper adjustments in the value of obligations.

I think there was a question a few minutes ago, would this require or encourage additional supplemental appropriations. I think the answer—at least my thought is that the answer must be “Yes.” Whether it will be great in number, I do not know, but certainly, it could not operate to require fewer. It must require more. I do not know who can tell you how many more.

Either that, or you must provide in each new budget, each new budget request, some amount to take care of claims or of increased obligations, which would be legal, proper, and must be paid.

There would be two courses of action: One is a special budget account could be set up in each new annual appropriation to take care of those contingencies and recognize them. The customary way of taking care of such things in the past, which I hope we do not get into again, is to pad or adjust a little bit as a contingency in each of the several hundred different budget activity accounts that we have in the Department of Defense, because if a program manager ever had to pick up one of these adjustments in any year, he would protect himself the next 4 or 5 years so he would not have to come for a supplemental, or did not have to adjust his program all the way out through the field to take care of it.

We are bound to ask for money to take care of it in one way or another.

My own view is that, if in the consideration of the second part of this legislation, or what I call the second part, leaving aside the claims, some clear-cut provision could be made to provide for the adjustment of obligations, assuming they could be justified you would have a much better piece of legislation.

Also, I would urge consideration of trying to go the whole way in carrying over the accounts into one new account such as recommended by the Hoover Commission, although this bill goes part way.

Senator KENNEDY. As I understand it, you are in favor of this bill, but you do not feel that it goes far enough. You are in favor of it as far as it goes?

Mr. McNEIL. On the certified claims?

Senator KENNEDY. On the certified claims.

Mr. McNEIL. But on the other part I really think it requires considerable thought here as to the effects; and some provision made for the adjustment of obligations as of the end of June 30 because we have escalation clauses in contracts outstanding.

These are legal obligations. We attempt under section 1311 to provide the best possible estimate. If it runs over, the obligation of the Government has not been decreased a particle.

When contracts are let for ammunition or anything, or spares, the quantity is specified. But frequently, the quantities may vary in the manufacturing process by, say, 5 or 10 percent. To post the account we estimate, but there can be an overrun. If there is an overrun, I think it is a very proper adjustment in the obligation of June 30, if it can be justified and proven.

On cost reimbursement-type contracts of which there are still some under certain conditions, the estimate of the cost is the best we can make at the time. If, as in the case of ballistic missiles, frankly, where we do not know what some costs will be, we do have adjustments to get the same identical job done that was contemplated in the original contract.

We think that this should provide for adjustments of that type, assuming they can be justified with individual items.

Senator KENNEDY. Do you have any questions, Mr. Shriver?

Mr. SHRIVER. No; I have no questions at this time, Mr. Chairman.

Mr. McNEIL. I wanted to add one thing, Mr. Chairman, I think that is necessary if we are to avoid one point that you brought up just after I stepped into the room.

We are having a lot of difficulty in applying the provisions of section 1311, although, I repeat, it is one of the best pieces of legislation that has come out in this field for a long time.

We would like to adhere rather carefully to what we consider very rigid criteria as to what is and what is not an obligation.

But the very minute we force people, in a sense, to be a little careless with it, we do not accomplish what the basic legislation was intended to do and what we are striving to accomplish in having very clean-cut criteria applied to what is or is not an obligation.

Senator KENNEDY. I did not want to get into S. 3199, particularly. Are you going to return tomorrow, or will you send some of your representatives here? We will have a hearing on S. 3199 then.

Mr. McNEIL. I have to be out of town tomorrow, but there will be somebody here representing us.

Senator KENNEDY. What is your feeling with regard to the suggestion on budgeting contained on page 2 of S. 3199?

Mr. McNEIL. That is a rather long subject, I think, sir, because as expressed here it appears rather simple. It is not quite that simple.

Next, it is my view that looking at it from a commercial accounting viewpoint some of the statements here would apply perfectly, but in

the Federal Government I think we want to use accruals, the accrual principle, but must adapt it to our operation and problem; otherwise, I think it is excellent principle.

However, primarily, I am speaking for the Department of Defense—the most important thing in managing the place is to know the cost of consumption. If you take the word “accruals” you would assume that it included depreciation and everything else.

We are at a loss to know what value would be achieved by attempting to apply the accrual principle in full, by depreciating a fighter aircraft or equipment of that type. It is an item that you have to have. You know its cost and its value. That certainly should be known.

But on those major items you deal in the combat capability and the quantity. And as to depreciation, I do not know what we would do with it if we had it.

As to the cost of consumption of material used in housekeeping, maintenance, and operation, it is vital to us to know what it is.

So if accruals means cost of consumption in the day-to-day operations of a post, camp, station equipment we agree completely that we ought to do it.

But this is largely written from a commercial accountant's viewpoint and does not take into account one basic difference which I think has to be recognized in the Federal Government; and that is the obligations of the Government in the future. This more or less subordinates that.

I think in the past years there has been too much emphasis on obligations and not enough on the day-to-day costs of consumption or operation. I think we have to bring those two things into balance in the years to come.

But I do not think we dare subordinate obligations, particularly when we are thinking about the long-range future procurement which to us takes almost half of the resources you give us—we must dwell on that subject, because the ordinary accrual principle just does not apply as we think of it in business.

Senator KENNEDY. The Defense Department is really the major agency involved because of the amount of money expended. Your viewpoint would be of great help. Tomorrow could your representative give the subcommittee a memorandum on this, section by section. If we have to rewrite the bill we can eliminate or change the language. I would like to have as thorough an analysis of it as possible and any suggestion that you might have. Your testimony would be very helpful. (This information was presented to the subcommittee at a subsequent hearing, March 27, 1956, see p. 211).

Mr. McNEIL. Thank you, sir. I did not mean to mix up your hearing this morning on the one bill, except what I would call the second part of the bill you are considering today seems to me to be an integral part of the whole appropriation and accounting process. It is to a degree separable from the settlement of claims. That is what I had in mind by pointing that issue up.

Senator KENNEDY. That is fine. I am glad you brought it up because the bill introduced by Senator Payne goes much further than the bill we are considering this morning. I think your analysis of it tomorrow, or your representative's analysis, will be very helpful.

Do any of the gentlemen with you, Mr. McNeil, care to comment?

Mr. McNEIL. Do you have anything to add, Mr. Bordner, Mr. Lanman?

Mr. BORDNER. No.

Mr. LANMAN. No.

Senator KENNEDY. If not, thank you very much.

Mr. McNEIL. Thank you.

Senator KENNEDY. Mr. Gilbert L. Cake, of the Treasury Department, is the next witness.

Do you have a prepared statement, Mr. Cake?

**STATEMENT OF GILBERT L. CAKE, ASSOCIATE COMMISSIONER,
BUREAU OF ACCOUNTS, DEPARTMENT OF THE TREASURY**

Mr. CAKE. Mr. Chairman, I have a short statement that should not take much over 5 minutes, if the subcommittee will bear with me.

Mr. Chairman and members of the subcommittee:

I am glad to testify, on behalf of the Treasury Department, concerning S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill contemplates two major changes with respect to the manner in which claims would be paid and accounted for after the related appropriations have ceased, by limitation of law, to be available any longer for making contracts or otherwise financially obligating the Government.

Under the present law, the General Accounting Office reviews and settles claims against lapsed appropriations and, in that connection, is keeping more than 30,000 accounts for old balances as a means of insuring that no claim is paid that would create a deficiency involving a lapsed appropriation.

First, however, the administrative agencies concerned do the work of ascertaining the facts and documenting the claims—including recommendations thereon—to be reviewed and settled in the General Accounting Office.

Under the bill, this work by the administrative agencies would still have to be done but the claims, except those involving doubtful questions of law or fact, would be certified as correct for payment by authorized disbursing officers without first being referred to the General Accounting Office for approval. Of course, such administrative action would be subject to independent, postaudit review by the General Accounting Office.

Also under present law, Federal agencies generally must keep 3 separate accounts with respect to each appropriation title, namely, 1 account for the appropriation for the current fiscal year and 1 each for the expired appropriations for the 2 preceding years.

This is true of appropriations limited to a year or other periods of time, which, disregarding trust funds, are the great majority. After an appropriation has remained on the books of the Government for 2 fiscal years following that for which the appropriation is made, the entire balance, including the unobligated portion, lapses and is carried to a consolidated account for the payment of claims against all lapsed appropriations. As I previously mentioned, these claims, usually referred to as certified claims, are being submitted under present law to the General Accounting Office for approval before payment.

Under the bill, one-third of the appropriation accounts, and one-third of the innumerable allotment or other subaccounts related to such appropriation accounts, which are scattered among the different agencies of the Government, would be eliminated. Also, the more than 30,000 accounts kept by the General Accounting Office with respect to lapsed appropriations would be discontinued.

Only 2, instead of 3 accounts, would be kept with respect to each appropriation title, namely, 1 for the appropriation for the current fiscal year and the other for the purpose of liquidating claims involving old obligations against all appropriations for the same general purpose.

This would be accomplished each fiscal year by making, in the case of each appropriation title, a careful administrative review of the obligations outstanding against the appropriation account for the fiscal year just ended and then closing such account, within 90 days, by writing off the unused—that is, unobligated—part of the balance and transferring the remainder—that is, the obligated portion—to an account for the liquidation of old obligations.

As I have indicated, there would be one such account maintained for appropriations which were made for the same general purpose, and the account would be used for the liquidation of old obligations against such appropriations regardless of when the obligations were incurred in past years.

I have tried to give a general idea of the proposed changes in present practice without dealing with all of the procedural details.

The Treasury has been collaborating with the Bureau of the Budget, the General Accounting Office and the staff of your subcommittee, in the drafting of the proposed legislation.

With the amendments which the Bureau of the Budget proposes, the Treasury Department gives its full support to the enactment of S. 3362. This is because there are strong advantages to be gained in the way of:

- (1) Reducing the expense of paying and accounting for claims against expired appropriations;
- (2) Strengthening related audit;
- (3) Improving accounting in two ways: by reducing the size of the carryover of unexpended balances as between fiscal years; and by treating payments of claims in the Federal Budget as expenditures of the administrative agencies concerned rather than as expenditures of the Treasury Department; and
- (4) Expediting the payment of valid claims.

Mr. Chairman, in view of the reservations which the witness for the Department of Defense, Mr. McNeil, has made with regard to certain provisions of this bill, my testimony would be more complete if I should be permitted by the subcommittee to comment briefly on those from the standpoint of the Treasury Department.

Senator KENNEDY. Go right ahead.

Mr. CAKE. In the first place, I should like to emphasize that the Treasury Department is in full agreement with the Bureau of the Budget and the General Accounting Office on the desirability of the provisions of the bill as written.

From the standpoint of the Treasury Department's own operations, which are not inconsiderable, we foresee no serious difficulties of recordkeeping or control that would prevent compliance.

We are opposed to the idea of merging old obligations and old authority with new obligations and new authority as an accounting matter. We do not believe that congressional and executive control over the spending of public funds should be relaxed so far.

With respect to providing authority to make adjustments for possible miscalculations of unobligated balances, as I have said, the Treasury Department anticipates no difficulty with the bill as written. We are not, however, in a position to know or judge what the peculiar problems of the Department of Defense may be in the way of effective recordkeeping and control of appropriations and the need of lead time for installation of the new procedure.

Senator KENNEDY. Senator Cotton, any questions?

Senator COTTON. I have no questions.

Senator KENNEDY. Senator Symington?

Senator SYMINGTON. I have no questions.

Senator KENNEDY. Mr. Calkins, would you care to comment further on the Department of Defense's views on the bill?

Mr. CALKINS. From the standpoint of the Department of Defense?

Senator KENNEDY. Is there anything that you would care to add to what was said?

Mr. CALKINS. Mr. Chairman, I just gave some views on that to the subcommittee at the close of my statement. I would be glad to repeat those, sir, if you care.

Senator SYMINGTON. Cannot you say it without repeating it?

Mr. CALKINS. There are several points. I want to cover the same ground, of course.

As I previously said, the Treasury Department is in full agreement with the Bureau of the Budget and the General Accounting Office, on the desirability of the provisions of the bill as written.

From the standpoint of the Treasury Department's own operations, which are not inconsiderable, we can foresee no serious difficulty in recordkeeping or control that would prevent compliance.

We are opposed to the idea of merging old obligations and old authority with new obligations and new authority as an accounting matter.

Senator SYMINGTON. What do you mean by "old obligations"?

Mr. CALKINS. I mean, Senator Symington, the obligations that were incurred against the appropriation that are no longer available for the purpose of obligations and yet have not been paid. They are contracts that have been made.

Senator SYMINGTON. Give us an illustration of that from the practical standpoint in the Defense Department, if you can pick one out, and see how it works.

Mr. CALKINS. I would not be able to speak particularly for the Defense Department.

Senator SYMINGTON. Give us one from your Department then.

Mr. CALKINS. In the case of the Treasury Department, we might have a contract for the delivery of goods that had been made legally—made before the appropriation had expired—but the obligation has not yet been paid because the delivery has not been made. Then the delivery is made and the payment is effected.

That is what I mean by merging old obligations, that were incurred under prior years.

Senator SYMINGTON. You are talking about money that expires at the end of the year, because you cannot have it in the next year?

Mr. CAKE. I am talking about the obligations that were incurred against the appropriation that expired, obligations which already exist.

Senator SYMINGTON. I just want to be sure that I understand you now. You say that you order some goods, is that right?

Mr. CAKE. That is right.

Senator SYMINGTON. Say you order fans for the Department of the Treasury.

Mr. CAKE. That is right.

Senator SYMINGTON. And when you get those goods you pay for them, is that right?

Mr. CAKE. They have not been paid for in this case.

Senator SYMINGTON. Why have they not been paid for?

Mr. CAKE. Because they had not been delivered before the appropriation expired, although the contract is binding.

Senator SYMINGTON. You are talking about money that expires?

Mr. CAKE. Yes, sir.

Senator SYMINGTON. Because the goods have not been delivered, is that right? That is what I wanted to get at.

Mr. CAKE. The funds for the payment of that particular contract, if it was legally incurred, have not really lapsed or expired for the purpose of expenditure.

Senator SYMINGTON. But under the law, if you do not pay for them in that fiscal year then the appropriation dies, your right to use the money dies, is that it?

Mr. CAKE. Not as far as the money needed to pay for those particular legal obligations that were incurred while the appropriation was alive.

Senator SYMINGTON. If the appropriation dies, then you have no more money to pay the bill, is that right?

Mr. CAKE. Oh, no, not under present law.

Senator SYMINGTON. Do you have the money to pay the bill?

Mr. CAKE. Yes—the portion of the balance of the appropriation which we call obligated, which is necessary for payment.

Senator SYMINGTON. You make a contract to buy a fan, you either do it with a purchase order on the Government or do it with a contract with the manufacturer.

Mr. CAKE. That is right.

Senator SYMINGTON. You have that money appropriated, is that right?

Mr. CAKE. That money is appropriated; yes, sir.

Senator SYMINGTON. Then at the end of the fiscal year, do you lose that money?

Mr. CAKE. You only lose the part that is not needed to cover those contracts that you referred to. You have a firm obligation then.

Senator SYMINGTON. And you can pay your commitment, is that it?

Mr. CAKE. That is true, after the appropriation expires.

Senator SYMINGTON. If you have not made any use of the money then, the money dies?

Mr. CAKE. Only the part that is not needed to cover such contracts.

Senator SYMINGTON. That is what I say, but what you have not got to cover the contract dies at the end of that year, with certain exceptions, like the Navy on ships, etc.

Mr. CAKE. That is correct.

Senator SYMINGTON. All right.

Now, what is the point then? I mean, you have not used the money, so the money dies.

Mr. CAKE. Well, if I understood the testimony of the Defense Department correctly, they advocated instead of keeping 2 accounts for each appropriation head, only 1 account, that is, the current account.

In other words, the way this bill is written, Senator, it would require you to keep 2 accounts for each appropriation head, one for the appropriation for the current fiscal year which is available to go out and contract under; and the other would be available only for the payment of those obligations that were incurred under the prior year's appropriations.

If I understood the testimony of the Department of Defense correctly they advocate instead of keeping 2 such accounts, to differentiate between the money for the payment of old obligations and which is restricted to that, and the money to use for the current year—they advocate putting all that altogether in 1 account.

Senator SYMINGTON. Let me see if I get this straight. You have a certain amount of money and you commit that money in contracts or purchase orders, or what have you, up until the end of that fiscal year.

Mr. CAKE. That is right.

Senator SYMINGTON. If those goods are not delivered, you do not pay against them; and, therefore, you lose that money and you have to get it in the new appropriations bill if you are going to go through with the objective for having the money in the beginning; is that right?

Mr. CAKE. No, sir. Under the present law and under this proposed bill——

Senator SYMINGTON. Let us talk about the present law and then we can talk about the proposed bill.

Mr. CAKE. Taking an annual appropriation, which is available only to enter into contracts for 1 year, at the end of that year any balance remaining in that appropriation can no longer be used for the purpose of going out and entering into contracts.

Senator SYMINGTON. Unless it has been previously committed.

Mr. CAKE. But it is available to pay for any contracts or deliveries under such contracts that were made in the prior fiscal year for 2 years longer. Under the present law it stays on the books. It is available in order to disburse money in payment of legal obligations that were incurred during the year in which the appropriation was alive.

Senator SYMINGTON. But which were not actually shipped at the time, so that you could not pay for that which you did not get in the year in question; is that right?

Mr. CAKE. That is true.

Senator SYMINGTON. Then you have 2 more years under the present law to use that money for commitments that were made for merchandise for the year in question?

Mr. CAKE. Correct.

Senator SYMINGTON. What is the change in the law proposed that would change the current method of being allowed to use that money for 2 years subsequent to the fiscal year in question?

Mr. CAKE. The bill would provide that at the end of the year in which this appropriation expired, during which it was available for obligation—

Senator SYMINGTON. The fiscal year in question?

Mr. CAKE. The fiscal year that it was made for. At the end of that year, you would examine that appropriation, the obligations against it, review them carefully, and determine how much of the balance, the unexpended balance was already committed and how much was uncommitted. You would write off the books at that time the uncommitted portion. It would disappear. It would not be available any longer.

Senator SYMINGTON. Isn't that sort of impractical?

Mr. CAKE. It is not available for anything, Senator.

Senator KENNEDY. Where does it go?

Mr. CAKE. The authority has expired.

Senator KENNEDY. You say you write it off. You are talking about the proposed bill. What would you do under the present law with that money?

Mr. CAKE. It would stay on the books for 2 years.

Senator KENNEDY. And under the proposed bill you would write it off?

Mr. CAKE. Under the proposed bill the uncommitted portion you would get rid of immediately.

Senator SYMINGTON. What do you mean by "get rid of"?

Mr. CAKE. Write it off the books.

Senator SYMINGTON. Cancel it out?

Mr. CAKE. Cancel it out.

Senator SYMINGTON. In the beginning when you asked for the money, did you think that you needed it?

Mr. CAKE. Yes; over a year ahead of the time that you are going to use it.

Senator SYMINGTON. So there is no change in your opinion as to a meritorious request to the Congress?

Mr. CAKE. Senator, of course, conditions change during the year, and it is kind of hard to estimate sometimes, so far in advance.

Senator SYMINGTON. Then you would say that you would approve writing off that money, so that it could not be used in the subsequent 2 years?

Mr. CAKE. The Treasury supports that position in the bill; yes.

Senator SYMINGTON. But do you not see how difficult that would be for the Department of Defense on long-term contracts?

Mr. CAKE. As I have said, we are in no position to judge what their peculiar problems are.

Senator SYMINGTON. If you buy a ship it takes 6 or 7 years to build it.

Take an airplane, a bomber, it takes months to build it, and for ships, years.

On the basis of the law that you present, if you do not actually get delivery then you automatically cancel it out. What would you do with half of a ship or half of a plane?

Mr. CAKE. You would have to get additional authority.

Senator SYMINGTON. Then you would come back constantly and take the time of the Congress to ask for the money that you had asked for before, is that right?

Senator KENNEDY. I am not sure that would be correct in the case of a ship.

Senator SYMINGTON. I do not understand it, Mr. Chairman.

Senator KENNEDY. I want to understand it, too. But that is not the question that Senator Symington asked. I think he is getting to the heart of the matter very well. That would not be true if you ordered a ship. If the ship were not delivered you would not cancel out that. That would be an obligation so it would not be affected here. We are talking about unobligated funds.

Mr. CAKE. That is true. That is an administrative matter and I do not know whether they would cancel the contract or come back to the Congress for more authority.

Senator SYMINGTON. You are up here testifying on the bill. That is a pretty important point. If you order food and do not use it, you order fans and do not want them, because you have a cool summer, I can understand that, but I think there is some special legislation incident to laying the hull of the ship.

Suppose you have a long-term contract for bombers and due to a change by the Government your delivery date is delayed.

Under this law, under your testimony, you would have to come and ask for that money again.

Mr. CAKE. That would be true, Senator, if you could not pay for those obligations within that time.

Senator SYMINGTON. Don't you think that is impractical?

Mr. CAKE. We do not anticipate any difficulty within the Treasury Department. I am in much better position to speak about our own operations.

Senator SYMINGTON. You would not support something in the Treasury Department that operated against the functions of another Department that uses a great deal more money than your Department does, and, therefore, gives them much more of a problem in dollars and cents than it would give you, would you?

Mr. CAKE. Well, I assume that if the Department of Defense has good illustrations and good examples and evidence of the need for making the retroactive adjustments under the bill, they can sustain that need with the subcommittee.

Senator SYMINGTON. They have to come back to the Congress and justify again what they have already justified, do they not?

Mr. CAKE. I assume they would.

Senator SYMINGTON. Would not that take a lot of unnecessary time?

Mr. CAKE. If there was much of that; yes, sir.

Senator SYMINGTON. It would probably run into billions of dollars of requests.

Senator KENNEDY. My understanding of it is that it would not affect those items which have been ordered and which have not been delivered. All it would affect would be those items obligated which have not been delivered and rather than have the money put in the Treasury in the Claims Section, the agency would be able to pay the claim itself. That is all this bill deals with. Is that correct?

Mr. CAKE. Yes, but, Mr. Chairman, the difficulty lies in the fact that within 3 months each agency must determine the amount which

is obligated and available for that purpose for paying those bills. If they miscalculate, if their records are not complete, or if they miscalculate the amount of those obligations, and understate them, that was Senator Symington's point, I believe.

Senator SYMINGTON. No, my point—

Mr. CAKE. They would then have to come back.

Senator SYMINGTON. A lot of things that you buy, especially in aeronautical material and maritime material, take a long time to deliver.

With the possible exception of 1 or 2 cases, as I read this bill, if you do not get delivery on those in the year in question, as you have interpreted this bill, you would have to come before the Congress and have a rejustification of the items in question in order to be able to pay for them.

I would think that would make a very tricky situation from the standpoint of the manufacturers, for example, if that is correct, the way I gather your testimony.

Mr. CAKE. You would only have to if you grossly underestimated what the amount of the ultimate payment would be. In other words, the difficulty, apparently, that the Department of Defense is trying to point out, is that within 90 days they have a very difficult problem of determining rather accurately or reliably the exact amount that should be reserved for future payments.

Senator SYMINGTON. Let me take a case.

Suppose you had a schedule, for example, to deliver, say 30 bombers in the last 3 months of this fiscal year and because of engineering changes specified by the Government you were not able to deliver those until you had completed the changes. Suppose the changes took another 12 months or maybe 15 months before you could deliver.

For example, would the Department of Defense have to come before the Congress and rejustify money in order to pay for those items when they were delivered in a subsequent or the second subsequent fiscal year?

Mr. CAKE. They would have only to rejustify the amount necessary if they had grossly underestimated the obligation.

Senator SYMINGTON. That would always be true—they would only have to justify the money necessary to pay the bill.

They would have to justify paying for the later account.

Mr. CAKE. If I might clear up just that one point, they will already have estimated under this bill what they think they will have to pay in the future. That will be available.

Senator SYMINGTON. But they might make a mistake?

Mr. CAKE. If they make a mistake and underestimate that, then they would not have the money necessary.

Senator SYMINGTON. In other words, if the mistake they made was, for example, that they did not know design changes were going to hold the delivery up 6 months—

Mr. CAKE. That is where the difficulty lies.

Senator SYMINGTON. That would not be their mistake, would it?

Mr. CAKE. I do not quite follow you on that.

Senator SYMINGTON. In other words, they are given a schedule of planes and they apply a certain amount of money to pay for them,

then they decide in order to make the plane more competitive as against possible opposition, they want to make changes on the plane.

Mr. CAKE. You could hardly call it a mistake.

Senator SYMINGTON. That is right. I would not call it a mistake, either; but on the other hand, whether it was a mistake or was not a mistake, they have not the money to pay for that unless they come back and ask for more money.

Mr. CAKE. As I understand it, that is true.

Senator SYMINGTON. That is the way you understand it?

Mr. CAKE. Yes.

Senator SYMINGTON. Is that true of all merchandise in the Department of Defense? Are there any exceptions?

Mr. CAKE. Sir, I cannot answer.

Senator SYMINGTON. Is there anybody here who could answer that question?

Mr. LANMAN. I am Mr. Lanman, Assistant General Counsel for the Fiscal Affairs for the Department of Defense.

I would like to say you are absolutely right with respect to the impact of this legislation on an annual appropriation account where we do have long lead-time procurement.

However, with respect to most of the hard goods, the major items we call them, the appropriations involved are made on a basis of no year limitation, no fiscal year limitations.

In the case of planes, ships, tanks, and most of the long lead-time articles, for which appropriations are made to the Department of Defense, this bill would have little, if any, application.

However, to the extent, as we testified earlier—to the extent that we have retained in annual appropriations long lead-time procurements, Navy ship components, etc., we do have the problem.

And additionally, the point we attempted to make earlier was that in these contracts and in many of the obligations of the Department of Defense, they change.

In other words, take the case of the fans that you spoke of earlier. We agree to pay a certain price for the fans. That obligation is clear. It probably would not happen in the case of fans, but there might be a price escalation clause in there to take care of increased labor costs which did not occur until sometime after the close of the fiscal year. Our obligation to pay is firm. And we would have to adjust the records.

If the money has been returned to the Treasury, then we have to get it some place. This bill provides that we would get it out of the current account. We are somewhat concerned with respect to the possible impact of that on our current account.

Senator SYMINGTON. I have to leave. I am very much in sympathy with Mr. Lanman's testimony. I would like to have some further time to go into this. Could you have a further hearing on this matter.

Senator KENNEDY. Will you go over again slowly for us, why this bill is going to make your problem more complicated, because if it is going to complicate more than help matters we should know about it.

Mr. LANMAN. As we indicated earlier we are in favor of the long-range objective of this bill.

Senator KENNEDY. Are you in favor of the bill?

Mr. LANMAN. We are in this position, sir: That is, that the bill if clarified to assist in the problems which I have just discussed—

Senator KENNEDY. Do you have clarifying language with you?

Mr. LANMAN. We have not, to offer here today, language for clarification but I am authorized by Mr. McNeil to say that we would be happy to join with your staff or submit some for the subcommittee.

Senator KENNEDY. As to how it might be improved?

Mr. LANMAN. Yes, sir.

Senator KENNEDY. Do you know whether the Treasury and these other groups would still support the bill, if the changes that you are going to suggest were put in?

Mr. LANMAN. I have no way of knowing that, sir, for sure.

Senator KENNEDY. Have you discussed your changes with the Bureau of the Budget?

Mr. LANMAN. We prepared a general comment on a similar legislative proposal, sir, to which we offered no language but we did indicate substantially, the same as Mr. McNeil did here this morning, that we felt if the major recommendations were enacted—take, for instance, the cost basis which I am not too familiar with or expert on, but assuming that we would believe that the Hoover Commission recommendation No. 17 under that circumstance would have to be followed literally; in other words, we could not go to the cost basis without a single account to reflect all of the transactions.

I am not qualified to discuss those aspects.

Senator KENNEDY. The cost is not in this.

Mr. LANMAN. I understand that.

Senator KENNEDY. There is no point in the subcommittee doing anything about this bill if the Department of Defense is not in favor of it as it stands.

First, we want your suggested language and then we want to know whether the Bureau of the Budget and other administrative agencies are in agreement with it. How can we function without that information?

Mr. LANMAN. I am sorry, sir, that we are not prepared to offer that at the moment. We can get it for you as quickly as possible.

Senator KENNEDY. Have you discussed it with the Bureau of the Budget?

Mr. LANMAN. Recommended language? No, sir.

Senator KENNEDY. Perhaps recommended thoughts that the language would implement?

Mr. LANMAN. Yes, we have.

Senator KENNEDY. Are they in agreement with it?

Mr. LANMAN. I think not, sir.

Senator COTTON. The suggestions that you have to make—do they have to do with S. 3362 or the bill that we are taking up tomorrow?

Mr. LANMAN. The testimony we have offered here is in relation to S. 3362, and we would have clarifying amendments offered to that bill.

Senator COTTON. That was my second question. Is it just simply a clarification or do your thoughts about this bill involve substantial change in the mechanics of the bill or the theory of the bill?

Mr. LANMAN. I find it difficult to state the position, sir, except to say that the bill, if enacted in its present form, we would find difficult to work with and we would suggest that if the subcommittee desires to

enact a bill in its present form, including the provisions for establishment of more than one account, to liquidate the prior year obligations, we would like to offer some language prior to the enactment.

If, however, the subcommittee is seriously considering the enactment of the provisions in S. 3199, we would prefer that nothing be included in this bill with respect to the establishment of the single account and that it be considered in connection with S. 3199.

Senator KENNEDY. We are going to hear more testimony tomorrow morning on S. 3199. In the meanwhile, we will have the staff and you get together on the language and the changes you might suggest for this bill and then the Bureau of the Budget can approve it and we will discuss it again.

Mr. LANMAN. Thank you.

Senator KENNEDY. I think it is unfortunate that prior agreement could not have been reached with the Bureau of the Budget, because it is pretty hard for us to consider detailed technical language. The representatives of the Bureau of the Budget say they are in favor of it, and then find it excepted to by the most important agency.

Mr. LANMAN. We did make known that we had some reservations with respect to the bill as introduced.

Senator KENNEDY. The reservations seem major.

Thank you.

We will now hear from Mr. Robert F. Keller, Assistant to the Comptroller General of the United States.

STATEMENT OF ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL; ACCOMPANIED BY KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL; JOHN MOORE, OFFICE OF GENERAL COUNSEL; AND S. M. BROWN, ACCOUNTING SYSTEM DIVISION, GENERAL ACCOUNTING OFFICE

Mr. KELLER. Mr. Chairman and members of the subcommittee, I have with me Mr. Karney Brasfield, Assistant to the Comptroller General; Mr. John Moore of our General Counsel's Office; and Mr. S. M. Brown of our Accounting System Division.

I have a short statement I would like to read, with your permission.

Senator KENNEDY. Proceed, please.

Mr. KELLER. We appreciate the opportunity to appear before you to discuss S. 3362 which, if enacted, will bring about substantial accounting improvements in the Government and will greatly simplify and facilitate the payment of amounts due to creditors of the Government which are chargeable to lapsed appropriations.

The Hoover Commission, in its Report on Budget and Accounting, made two recommendations in the particular area covered by S. 3362. These are:

Recommendation No. 17:

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

And recommendation No. 18:

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office but should be settled within the agencies.

S. 3362 will substantially carry out the objectives of recommendations Nos. 17 and 18. The only essential difference being that obligated balances for prior years would be consolidated in separate accounts, rather than brought forward to the current appropriation accounts of the agencies.

S. 3362 authorizes the agencies of the Government to pay undisputed bills chargeable to lapsed appropriations in precisely the same manner as bills payable from currently available appropriations.

This objective will be accomplished by repealing existing requirements that all obligations chargeable to lapsed appropriations shall be certified by the General Accounting Office in advance of payment by permitting agencies to retain obligated balances of appropriations made to them; and by granting, under regulations to be prescribed by the Comptroller General, authority to the agencies to pay prior year obligations from the retained balances through regular disbursing channels.

In the event S. 3362 is enacted, it is estimated that from 40,000 to 50,000 cases a year which, under present law, are required to be processed by the General Accounting Office, can be paid directly by the agencies.

As a result, claims adjudicators and supporting personnel of the General Accounting Office now engaged in such work will be available for assignment to more productive work. Paperwork and time lags will be substantially reduced.

In addition, the General Accounting Office will be able to discontinue the maintenance of approximately 35,000 detailed ledgers of accounts pertaining to lapsed appropriations.

The bill will not affect the responsibility of the General Accounting Office to adjudicate claims involving doubtful question of law or fact. Such claims will continue to be sent to the General Accounting Office for settlement.

In addition, the proposed legislation will reduce the carryover of unexpended balances in appropriations. At present, the entire balance of each annual appropriation is carried in the account of the agency for 2 years after the appropriation is no longer available for obligation purposes.

Under the provisions of S. 3362, the obligated balance of an appropriation will be transferred to an appropriation account consisting of the obligated balances of all prior year appropriations granted for the same general purpose.

The unobligated balance will revert to the general fund of the Treasury. These transfers will be based on reports of obligated balances which all agencies are now required to make under the provisions of section 1311 of the Supplemental Appropriation Act, 1955.

It is recognized that it is not always possible to report obligated balances of appropriations with precise accuracy, due to occurrences which may come about after the reporting date. Amounts ultimately required for liquidation of obligations may fluctuate.

However, the agencies will be able to utilize the savings resulting from excess obligations to offset amounts underobligated.

This feature, together with the authorization in section 3 of the bill to use currently available appropriations when necessary to meet obligations against prior years' appropriations, should afford suf-

ficient latitude to the agencies to effect payments to creditors without undue delay.

An additional benefit will be afforded by the bill. At present, liquidations of outstanding obligations against lapsed appropriations are budgeted and recorded as expenditures of the Treasury Department rather than of the agencies which received the goods and services.

This procedure overstates the expenditures of the Treasury and understates the expenditures of the agencies which incurred the obligations by several hundred millions of dollars each year. Under S. 3362 such expenditures will be recorded and reported as expenditures of the individual agencies who received the goods or services.

It is understood that the Bureau of the Budget has suggested amendments to S. 3362. These amendments are for the most part technical. They have been discussed with us and we concur with the Bureau in recommending their favorable consideration.

We fully endorse the provisions of S. 3362, together with the amendments offered by the Bureau of the Budget and urge favorable consideration of the legislation by the Congress.

Senator KENNEDY. Are there any questions?

Senator COTTON. Mr. Keller, can you give a rough estimate of the amount of savings annually that this bill might effectuate?

Mr. KELLER. I can give you an estimate of annual savings, Senator Cotton, insofar as the General Accounting Office is concerned.

We estimate that we will have a reduction in personnel after we clear up certain other pressing work, which I hope will be in about 18 months.

We estimate we will need 106 personnel. Seventy-eight of these people would carry an average salary of some \$6,500 a year, which would be the actual claims adjudicators. Twenty-eight will be servicing personnel with an average salary of about \$3,300 a year.

I have not totaled those up, Senator Cotton, but I can do so.

Roughly, around \$600,000 per year.

I say we cannot have an immediate savings because if this bill is enacted, we want to use our excess personnel for liquidating a backlog of claims the Government has against individuals, of which there are some 155,000 on hand right now.

Senator COTTON. How much, roughly, are the unobligated carryovers that this bill would cause to terminate?

Mr. KELLER. I am sorry that I do not have any figures on that. I think what you are talking about is the total amount of appropriations that we would no longer carry in the appropriation account.

Senator COTTON. That are now being carried?

Mr. KELLER. And revert back to the general fund of the Treasury.

Just a minute, sir. Mr. Brown, do you know how much went into the certified claims fund last year?

Mr. BROWN. No, I do not.

Mr. KELLER. I am sorry, we do not have that, Senator Cotton. I will be glad to furnish it for the record.

Senator COTTON. Can you supply it?

Mr. KELLER. Yes, sir.

(The information requested is as follows:)

1954 annual appropriations as of June 30, 1955

Unexpended balances of 1954 appropriations-----	\$3, 561, 117, 000
Unliquidated obligations-----	1, 133, 483, 000
Less amounts receivable-----	14, 872, 000
Net unliquidated obligations-----	1, 118, 611, 000

Amount that could have been withdrawn under the provisions of S. 3362, exclusive of the amount of obligations which were paid during the period July 1, 1954, to June 30, 1955----- 2, 442, 506, 000

Senator COTTON. I noted with interest your statement when you referred to the fact that the Treasury is now being charged with expenditures that actually are on behalf of other agencies. Does that run into a very substantial amount?

Mr. KELLER. It is between one and two hundred million dollars a year.

Senator COTTON. What agency or agencies have the bulk of that?

Mr. KELLER. The bulk would be, I suspect, with the military agencies. At least, that is the way our so-called certified claims break down. About 80 percent of those claims arise in the military departments.

Senator COTTON. So that one effect of this bill as it affects the Defense Department would be that they would be in public accounting charged with more expenditures than they are now?

Mr. KELLER. What happens, Senator, is this. When appropriations reach the period of 2 years after the year for which they are made, the balances are carried into the certified claims fund. The certified claims fund is by legislation, under the jurisdiction of the Treasury Department. Therefore, the charges against it are charged against the Treasury Department. For payment purposes they are shown as Treasury disbursements.

Senator COTTON. Are you familiar with the general theory behind the suggested changes that the Defense Department is going to offer to this subcommittee?

Mr. KELLER. Yes, sir. Of course, I have not seen any language. I would like to comment on those changes for a minute.

Mr. Lanman brought some of the points out. One of the major considerations is the large procurement items. Insofar as Defense is concerned, they are financed from no-year appropriations, which this bill would not affect. In other words, no-year appropriations do not expire as of June 30 for obligation purposes.

Secondly, I would like to reiterate a point that I made in my statement. For example, on June 30, or within 3 months after that time, we contemplate that the Department of Defense, and other agencies will determine their obligated balances. That is, what contracts they have entered into up to June 30, what they are committed for.

That amount of obligations would be drawn off and set up in a separate account and merged with all prior-year balances of that type.

The Department of Defense, as I understand their position, is not so much disturbed about what happened up to June 30, because they have a picture of that. But after June 30, they may make an amendment to a contract entered into prior to June 30 which will result in more money than originally obligated.

Or they may have, as they pointed out, an escalation in a contract which would not have been taken into consideration at the time they determined their obligated balance on June 30.

My feeling on that is—and none of us have any way of proving our position one way or another since it can only be proved by actual experience—those events would happen, but at the same time you would have events occurring on the other side of the ledger.

In other words, contracts would be reduced by price redetermination. Contracts would be canceled in reprogramming. We feel that in the long run the two stand a good chance of balancing each other off, but if they do not, then provision is made in the bill that the agency can tap their current appropriation to pay any of those bills that come up for which they have not obligated sufficient funds.

If by so doing the agencies have to request a supplemental appropriation, Congress would have to consider the problem at that time.

I cannot say they would never have to request a supplemental appropriation, yet at the same time I would not agree that it would be necessary very often.

Senator COTTON. Thank you.

Senator KENNEDY. I would like to discuss that particular point a little more.

Under the present law the Department of Defense, if it is buying an item, or items, and let us not talk about ships or planes which are in a different category—

Mr. KELLER. I do not think they are a good example.

Senator KENNEDY. Let us talk about fans.

Mr. KELLER. All right, sir.

Senator KENNEDY. Under the present law, if the Department orders fans and it uses all of the money for fans, with the exception, say, of \$5 million, that \$5 million would be carried as unobligated money for 2 years, is that correct?

Mr. KELLER. Under present law that is right, on the basis that no contracts have been placed against the \$5 million.

Senator KENNEDY. That is right. What use can the Department make of that unobligated money after the first year? The Department cannot use it, can it?

Mr. KELLER. Only to the extent that if in connection with their contract for fans in the previous year they came along after the end of the year and changed the specifications of the fans which made them cost more money, or if the contract, for example, provided for an escalation for labor increase.

In other words, that would be an occurrence after the original determination of the obligated balance had been made.

Senator KENNEDY. They cannot use the unobligated balance for anything but the liquidation of the goods for which they were obligated for the first year, is that correct?

Mr. KELLER. Liquidation of the contract in all respects, as I pointed out, that may be a change in specification or an escalation.

Senator KENNEDY. Under this new bill the unobligated money which would be available for these purposes only, which you have just described, would be taken away from the control of the Department of Defense completely, and then if there were changes in, say, an escalation clause, they would have to ask for a supplemental appropriation; is that correct?

Mr. KELLER. No, not entirely, Mr. Chairman. Only the unobligated balance would be taken away from the control of the Department of Defense. The Department of Defense, or any other agency, would be limited as to the total amount that they could spend for obligations incurred in the prior year.

But you cannot look at this matter as one individual contract. As I pointed out in the case of the fans, suppose we had an increased cost after June 30 of \$100,000 over and above what we thought the obligation might be on June 30. At the same time we are looking at all contracts, and we know that due to changes in another contract less money would be required. This may be due to reprogramming, etc., bringing about cancellation of a contract. When that happens the excess obligation recorded for the second contract could be used to balance off the under obligation on the first.

We think that is the way it will work.

Senator KENNEDY. I understand they can balance off these accounts, depending upon how they go up or down. We are talking now about this unobligated \$5 million. At the present it will be carried on for 2 years and will be available for unexpected contingencies on goods which have already been ordered.

Under this bill that money would not be available unless the Defense Department asked for a supplemental appropriation?

Mr. KELLER. It would not be available, that is correct.

Senator KENNEDY. That is the part of the bill about which the Department of Defense has some reservations, as I understand it.

Mr. KELLER. As I understand their testimony, Defense is asking for a provision to adjust or to go back and pick up some of that money. I am not clear exactly.

Senator KENNEDY. The other part of the bill which deals with these claims, the payment of claims, I believe they favor, and you are wholeheartedly in favor of it, are you not?

Mr. KELLER. We have no reservations whatsoever about it. I base that opinion on our own experience.

I would like to give you an example on that. You may run into June 30 of a year when an appropriation can no longer be charged by the Department of Defense.

If the contractor had a bill in, regardless of the amount, and there is no question that it is due and payable, the Department could pay the bill on June 30. But on July 1, that same transaction would have to be sent to GAO for settlement.

That is on the basis of the law enacted in 1949 which provides that the certified claims fund can only be charged against on a certificate of the GAO.

Senator KENNEDY. Under the present law they have the 2-year carryover?

Mr. KELLER. Yes.

Senator KENNEDY. Under this bill you would not have that 2-year carryover. Would that increase the number of claims?

Mr. KELLER. I do not see how it would. I do not see how it would change it a bit.

Senator KENNEDY. It would not?

Mr. KELLER. No, it would certainly decrease the number of claims that the GAO handles.

Senator KENNEDY. We want to be clear because of some of the questions that Senator Symington was asking. I do not know whether it was the impression that this would alter the power of the Department of Defense to carry over the purchase of hardware for the Defense Department. We are talking about the right to carryover, and I think he was concerned that it might affect the purchase of goods which take more than a year to produce. Those are all handled by other funds. It seems to me this would only affect something else.

Mr. KELLER. I would like to clarify that point, if I may. Let's go back to our example of the fans again.

If for any reason there fans took 2 years to produce, under a contract made prior to June 30, there would be a firm obligation for payment of those fans. The money would be available for 5 years, if necessary. There would not be any problem on that.

Senator COTTON. So long as they did not cost more than they had contemplated, they could change the make of the fan, and design of the fans, or postpone the contract for 2 or 3 years and still hold the money?

Mr. KELLER. Yes, sir.

Senator KENNEDY. I think your testimony and the testimony of the representatives of the Department of Defense and the Department of the Treasury is very helpful. We are very grateful to you.

Are you going to have a representative here to testify on Senator Payne's bill tomorrow?

Mr. KELLER. Yes, sir, Mr. Brasfield, whom I introduced earlier, will be the principal witness on that bill.

Senator KENNEDY. The suggested amendment would be that a section be written permitting exemptions from this provision, in cases where the Department of Defense requested it, and could justify it before the Congress. That might take care of those special cases which they feel would not be satisfactorily dealt with under the new bill.

Mr. KELLER. I would like to point out under that there is one provision, a Budget Bureau amendment, which may help the matter. It would be a new section 9. That section reads:

The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act, and fixing the period for which such appropriation or appropriations shall remain available for expenditure, is hereby authorized.

As you are well aware, that would place Defense or any other agency in the position of proving their need to the Appropriations Committee.

Senator KENNEDY. Is this satisfactory to you?

Mr. KELLER. Yes, sir.

Senator KENNEDY. As I understand it, this language is satisfactory to the Bureau of the Budget?

Mr. FINAN. We recommended that.

Senator KENNEDY. Is this satisfactory with the Defense Department?

Mr. LANMAN. We have not had an opportunity to thoroughly discuss it, sir. We will have a talk with the military departments and representatives.

Senator KENNEDY. Perhaps tomorrow morning you could give us an opinion whether you would withdraw your major objections to it, if this language were in the bill.

MR. KELLER. I would like to point out one other matter. We would like to see two separate accounts maintained instead of carrying forward the obligated balances of prior years into the new money account.

I cannot say that we would not be ready for one account at some time in the future, but being practical about it—and this is not aimed at any agency in particular—one account would place the agencies in the position of bringing over obligated balances into new money for the current year, and then it is possible that they could deobligate and have that money available for programing and procurement within the current year. This, in effect, would supplement the appropriation already made by Congress.

If I may make it clear, I am not saying anybody is going to do that. I think it would provide a means whereby it could be done.

Senator KENNEDY. That is a good point.

We will consider that carefully.

I wish to place in the record the following letter from Senator H. Alexander Smith of New Jersey.

MARCH 17, 1956.

HON. JOHN F. KENNEDY,

*Chairman, Subcommittee on Reorganization of Committee on Government Operations,
United States Senate, Washington, D. C.*

DEAR JOHN: I understand that your subcommittee is planning to hold hearings on S. 3362 this coming Tuesday, March 20, 1956. That bill, as you know, covers the same aspect of the Hoover Commission Report on Budgeting and Accounting as my own bill, S. 2678, introduced last year.

I have studied the two bills and, as a result, I find your bill completely satisfactory and an appropriate substitute for my own. I am happy to see that some of these Hoover bills are reaching the stage where you are able to take some action on them.

Always cordially yours,

H. ALEXANDER SMITH.

The subcommittee will adjourn until tomorrow morning at 10 o'clock, when we will consider S. 3199.

I want to thank you all again for coming here today to testify before the Subcommittee on Reorganization.

(Whereupon, at 11:45 a. m., the subcommittee adjourned to reconvene at 10 a. m., Wednesday, March 21, 1956.)

BUDGETING AND ACCOUNTING

WEDNESDAY, MARCH 21, 1956

UNITED STATES SENATE
SUBCOMMITTEE ON REORGANIZATION OF THE
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 357, Senate Office Building, Washington, D. C., Senator John F. Kennedy presiding.

Present: Senators John F. Kennedy, Democrat, Massachusetts; Stuart Symington, Democrat, Missouri; and Margaret Chase Smith, Republican, Maine.

Present also: Senator Frederick G. Payne, Republican, Maine; Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; and Kathryn M. Keeney, clerical assistant.

Senator KENNEDY. The subcommittee will come to order.

We will resume hearings today upon recommendations made by the Hoover Commission relating to the Federal Government's budgeting and accounting programs.

Testimony will be devoted this morning to S. 3199, introduced by Senator Payne, of Maine, and also sponsored by the ranking Republican member of the subcommittee, Senator Smith of Maine, which would implement the Hoover Commission's recommendations in these areas. S. 3199 incorporates the provisions of S. 2480 and S. 2369 which also are pending before the subcommittee.

This bill would require the agencies of the executive branch of the Government to establish cost-based budgets;

Authorize the Director of the Bureau of the Budget to assign budget analysts to the principal departments to maintain a continuous review of budget preparation and administration;

Require each executive agency to maintain its accounts on an accrual basis to show more clearly resources, liabilities, and operating costs;

Establish a Staff Office of Accounting in the Bureau of the Budget, headed by an Assistant Director of Accounting, to develop an overall accounting program in accordance with standards prescribed by the Comptroller General;

Create an Office of Comptroller in each executive agency to supervise agency accounting and auditing systems as prescribed by the Assistant Director of Accounting proposed above; and require each agency, in accordance with standards prescribed by the Comptroller General, to maintain a single account under each appropriation title or fund.

We have as our first witness, Senator Frederick G. Payne, of Maine, the author of the bill.

As former Governor of Maine, and previously as commissioner of finance and director of the budget for that State, Senator Payne brings to the subcommittee years of experience in governmental budgeting and accounting, and the problems involved therein.

Senator Payne, it is, indeed, a pleasure to have you with us.

**STATEMENT OF HON. FREDERICK G. PAYNE, UNITED STATES
SENATOR FROM THE STATE OF MAINE**

Senator PAYNE. Thank you very much, Mr. Chairman, and my distinguished colleague, the senior Senator from Maine. It is a pleasure for me to appear here today in support of S. 3199.

Let me say at this point, Mr. Chairman, that sometimes people become confused over amounts. The size in itself has no bearing on the problem since it makes no difference whether an amount is 60 billion or whether it is 1 billion, if a basic accounting philosophy which sets up adequate controls and fiscal reporting is established. So, dollar-volume as such sometimes confuses people because they think when you talk in great sums, that you are exaggerating the problem, whereas, actually, you are not if the basic concept is on a sound basis.

That the present fiscal system has serious shortcomings is rather unanimously agreed by all authorities in the field. As to agreement on particular shortcomings there is not so much unanimity, and with regard to possible corrective measures there is reasonable agreement on certain approaches and some disagreement on others.

The decade since the end of World War II has seen a growing demand for modernization of the budget process, and some progress has been made such as the Government Corporation Control Act of 1945, which placed the operations and accounting of government corporations on a business-type system; the 1949 amendment to title IV of the National Security Act of 1947, which provided for performance budgeting in the Department of Defense; and the Budget and Accounting Procedures Act of 1950, which carried out some of the recommendations of the first Hoover Commission, and took some major steps toward revitalizing the budget process.

Despite the fact that the record shows considerable progress, we still have a long way to go. There have been many proposals made which would purport to improve our fiscal system, with each receiving varying degrees of support from fiscal experts, both in and out of the Government.

Naturally some have more merit than others. On several of the major proposals there is substantial agreement on the general plan, but serious disagreement on the manner of implementation. A great many of these proposals, most of which appear to have merit in the long run, are in the field of procedural changes.

I am thinking of proposals in the nature of the omnibus appropriation bill coupled with the item veto, and changes in the organizational structure of Congress to provide for more coordinated consideration of appropriation and revenue measures.

In addition to the ones I have mentioned there are many other recommendations worthy of the most careful consideration as long-run methods of improving the fiscal performance of our government as a whole. Let me state at this point, that I do not believe that there is any panacea

for all of our problems in the area of fiscal performance and responsibility.

But I do believe that there is a logical starting point, and only by starting at the proper place can we hope to achieve the goals toward which all of us believe we should work.

The starting point, it seems to me is the development of sound, accurate, meaningful, useful fiscal data—in short, an adequate and efficient budget and accounting system.

Until we put the fiscal operations of the Government on such a system all of the desirable procedural changes in the world will have only minimum effectiveness.

As an accountant with experience in financial management in private business and Government, both State and Federal, this problem has given me a great deal of concern since I have been a member of the Senate.

To be very frank, I have been disappointed at the kind of budget information on which Congress must base its most important policy decisions including the overall size of Federal activities for the ensuing year.

After devoting considerable study to the matter I became convinced that the budget and accounting recommendations of the second Hoover Commission in its June 1955 Report to the Congress, entitled "Budget and Accounting" make up the best comprehensive approach to the problem.

The Commission itself drafted and had introduced bills that would implement some of the recommendations, but, in general, each bill applied to only one particular recommendation. It seemed to me desirable to have one omnibus bill that would include all of the basic recommendations that appeared feasible to adopt at this time. Therefore, I drafted and introduced S. 3199.

My colleague, the senior Senator from Maine, is here, and I think she will recall that during the period when I was in State government she sent to me at one time, at my request, a considerable volume of material; in fact, it came in the nature of full mail bags, relative to fiscal procedures then pertaining to the operation of the Federal Government. It has become more confused now than it was at that time.

Before going any further let me stress the fact that the real key to adequate, efficient budgeting and accounting is capable, competent, qualified personnel. The right type of personnel, skilled in their work and with a desire to do the best job possible, could make almost any system work. On the other hand Congress cannot by legislation create this kind of personnel, but Congress can by legislation provide the framework and the tools to make the job easier, and by clearly indicating its desires can provide the incentive to help qualified personnel meet the fiscal requirements of the Government.

S. 3199 is intended to adopt the majority of the Hoover Commission recommendations. A few were omitted for various reasons. Briefly I will try to indicate the general considerations which led me to this conclusion. The most obvious recommendation which is not in the bill is the one which would put the executive budget and congressional appropriations in terms of annual accrued expenditures.

This would require changing the present manner of handling long lead-time programs, such as major procurement and construction contracts, primarily in the Department of Defense.

I believe this is a very essential step and one that definitely should be taken, but it appears to me that the success of the proposal will depend on a basic foundation of adequate accounting and an ability to program effectively.

In other words, it would require a solid foundation. The bill is intended to develop such a foundation and, if it is enacted, it is my intention to draft a bill to carry out the accrued expenditure proposal after the accounting provisions of S. 3199 have had time to become effective.

Now, if I may at this point, Mr. Chairman and members of the subcommittee, let me say that this particular recommendation of the Hoover Commission to me has a great deal of meat in it and, as far as I am personally concerned, I would hope that the subcommittee would give a lot of consideration to the possibility of adopting the provision at this particular time.

The reason I mention the fact that you have to establish a solid foundation is because it is awfully hard in government, and I do not care whether it is local, State, or Federal, to get something to be willing to change something that they have been doing in a particular way for a long period of time.

But this particular proposal, to me at least, is the answer to ending a great deal of the confusion that exists at the present time in the handling of appropriations and in the tremendous difficulties that are being encountered by both the General Accounting Office, and the Budget Bureau and, in fact, if the departments will admit it, the departments themselves——

Senator KENNEDY. Senator, on page 4 of the bill, section 2 (c), it talks about the accounts of such agencies being maintained on an accrued basis.

You stated here that such recommendations are not in the bill——

Senator PAYNE. I am speaking now of the provision that is not in the bill, which would eliminate this long lead-time basis of appropriations.

In other words, what I am speaking of is the recommendation made by the Hoover Commission, which I believe, if I can find it here——

Senator KENNEDY. Recommendation No. 7.

Senator PAYNE. No. 7 is one of the most important—wait a minute. I have one book and you have the other.

Senator KENNEDY. No. 7—you have the task force book?

Senator PAYNE. On page 24, for instance, of the green book [indicating], is the recommendation I am referring to for the annual expenditure budget. Those that say it cannot be used should take a second look at it because the Corps of Army Engineers are operating under it at the present time.

In other words, the Congress gives to the Corps of Engineers, in effect, what is a contract authorization to do a certain job which will extend over a period of, let's say, 3 years or 4 years, but the annual amount of the project that the Corps of Army Engineers figure they year, is the amount that determines how much appropriation is given by the Congress for that 1 year of activity.

We do not appreciate a lump-sum amount that covers the entire amount of the project that the Corps of Army Engineers figure they are going to require over a 4-year period; yet we are doing that in the

construction of ships, in our airplane procurement, and in other activities, and it is the one thing that has confused this entire budget procedure.

Senator SMITH. Nevertheless, Senator, you think we should have the same procedure all through the Government?

Senator PAYNE. All through the Government—yes, I do. It is one of the very clear reasons why there is such difficulty in trying to tie down what the unobligated balances are. For instance, in the Department of Defense, I can recall, in 1935, I think, there was a discrepancy of somewhere, if I remember, over \$5 billion. One figure was given one day and another figure was given another day.

Last year, in the aid program, I think there was something in the vicinity of \$800 million.

Senator KENNEDY. Please continue with your statement.

Senator PAYNE. In its report to the subcommittee on S. 3199 the General Accounting Office approves the sections relating to cost based budgets and accrued accounting, but indicates that it favors the adoption also of the accrued expenditure recommendation discussed above.

For the reasons already indicated, I believe that the GAO is right in the long run, but that it would be impractical possibly to try to make such changes without having laid the necessary groundwork.

Notwithstanding this feeling on my part, but because I fully agree with the General Accounting Office, and I might say also that I think the Budget Bureau also feels this way about it, and others who are greatly concerned over the deficiencies of our present system, I stand ready to support the inclusion in S. 3199 of a provision requiring that the executive budget and congressional appropriations be stated in terms of annual accrued expenditures, if the subcommittee after careful consideration believes such a step is desirable.

If it is determined that such an amendment should be made, it must be remembered that provision will also have to be made providing for general authority to contract for programs that require several years to complete.

One or two other recommendations were omitted because they required the development of adequate systems before they would have any effect. Hoover Commission Recommendation No. 8 relating to enactment by Congress of appropriations for special programs not subject to budgetary control was omitted because it is a matter for which the Congress itself must develop policy.

Recommendation No. 18, which would relieve the General Accounting Office of the need to approve claims on lapsed appropriations, was omitted because I was advised that legislation was being prepared in cooperation with the GAO to implement this recommendation, and it is my understanding that this legislation has now been introduced.

Hoover Commission Recommendation No. 19 which would allow the Comptroller General to relieve accountable officers to financial liability except where losses result from gross negligence or fraud was omitted because it appeared that probably this went a little too far, and that present provisions of law were adequate for the purposes intended to be accomplished.

Public Law 365 of the 84th Congress, gives the Comptroller General authority to relieve disbursing officers in cases where the making

of any illegal, improper, or incorrect payment was not the result of bad faith or lack of due care.

In a statement dated October 26, 1955, the Comptroller General set forth some views on the Hoover Commission Budget and Accounting Report. In his comments on recommendation 19 he says in part as follows:

It is our view that accountable officers should be held responsible for payments in violation of specific provisions of law, in contravention of regulations of the administrative agency, or contrary to decisions of the Comptroller General issued for the guidance of accountable officer, except in situations where such payments are " * * * not the result of bad faith or lack of due care * * *," the standard laid down in Public Law 365.

This is a standard we believe more conducive to sound public administration than one requiring demonstrated evidence that "gross negligence or fraud" was involved.

Instead of discussing all of the provisions of S. 3199, Mr. Chairman, I would like to submit for inclusion in the record at this point in my statement a sectional analysis which I prepared at the time the bill was introduced.

Senator KENNEDY. Without objection, it will be entered.
(The document referred to above is as follows:)

SECTIONAL ANALYSIS OF PAYNE BILL TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS

Section 1 (a) : This section is designed to directly implement recommendation No. 22 of the Hoover Commission Budget and Accounting report. The Commission did not specify the period comprehensive financial reports should cover, but it seemed reasonable that they should be on a fiscal year basis. However, it also seemed desirable to give the Director of the Bureau of the Budget some discretion since experience might well prove that such reports would be of more value if based on shorter periods. However Commission recommendation No. 22 is as follows :

Recommendation No. 22

"The the Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities."

Section 1 (b) : This section is intended to carry out Hoover Commission recommendations Nos. 2, 3, 4, and 6. Basically, it would require the use of cost based budgets by all the agencies, for all management purposes. With regard to the requirement of quarterly reports to agency heads by subordinate units, the Hoover Commission made no direct recommendation. However, in line with the objective of improving the fiscal management function such reports seem desirable, and also they will form the basis of the annual report the agency head is required to submit to the Bureau. Hoover recommendations Nos. 2, 3, 4, and 6 are as follows :

Recommendation No. 2

"That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole."

Recommendation No. 3.

"That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance."

Recommendation No. 4.

"That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and ac-

complishments, and by a review of performance by organizational units where these do not coincide with performance budget classifications."

Recommendation No. 6

"That executive agency budgets be formulated and administered on a cost basis."

Section 1 (c): This section would put into effect recommendation No. 1. This, in particular, is one of the provisions that could be handled administratively. It would place employees of the Bureau in the executive agencies to help carry out the Bureau's managerial functions by maintaining a continuous review of budget preparation and administration. It is believed that this measure would be a major factor in achieving sound budget and accounting methods and would aid in developing some degree of uniformity in this field. The provision limiting the Bureau to not more than two persons for each principal subdivision of an agency was designed to place some initial limit on the number of personnel so employed. It may be found later that a different limiting number would be better. It is hoped that this problem will be carefully explored by the committee in studying this bill. Hoover recommendation No. 1 is as follows:

Recommendation No. 1

"(a) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

"(b) That in order to do this, among other things, it should place in important agencies one or more well-qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

"(c) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose."

Section 2 (a): This provision simply states legislatively recommendation No. 5 of the Hoover Commission, which is as follows:

Recommendation No. 5

"That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems."

Section 2 (b): This section is designed to carry out recommendations Nos. 14 and 16. This provision is a natural corollary of cost based budgeting. In practice it will mean that it will be possible for management to determine at any given time its fiscal status. Monetary property accounting is essential to determine with any degree of accuracy the fiscal status of an agency, either for management purposes or for the Congress. Hoover recommendations Nos. 14 and 16 are as follows:

Recommendation No. 14.

"That the Government accounts be kept on the accrual basis to show currently, completely, and clearly, all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting."

Recommendation No. 16.

"That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of the accounting systems."

Section 2 (c): This section would put recommendations Nos. 10, 11, and 12 of the Hoover Commission into effect. First it would establish a Staff Office of Accounting in the Bureau of the Budget headed by an Assistant Director and lists his duties. It is realized that there are valid objections to legislating an administration organization. On the other hand there is a clearly demonstrated need for improvement in accounting and it would seem, in view of congressional control of the purse, entirely proper for Congress to take this type of action. As the system contemplated in this bill is tested with experience there is nothing to prevent the Director of the Bureau from recommending changes. Recommendation No. 12 is covered in the duties of the Assistant Director.

The second part of the section would create the position of Comptroller in each agency and generally outlines his duties. Actually almost every agency has a position that in some respects corresponds to a Comptroller, but there is wide variation in the powers and duties of these positions in the various agencies. In the interest of promoting improved fiscal performance it is believed that much

could be achieved through the clear delineation of the major functions of an agency comptroller. Hoover recommendations Nos. 10, 11, and 12 are as follows:

Recommendation No. 10.

"That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

"(a) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

"(b) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

"(c) To set reasonable but definite time schedules for performance and to watch progress.

"(d) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

"(e) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies."

Recommendation No. 11

"That as an aid to financial management the position of Comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

"(a) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

"(b) To direct the recruitment, training, and development of qualified accounting personnel.

"(c) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

"(d) To interpret and advise upon significant aspects of the financial reports.

"(e) To direct the preparation and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies."

Recommendation No. 12

"That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget."

The General Accounting Office's report to the subcommittee on S. 3199 could be characterized, I believe, as generally favorable.

It does indicate, however, that the Comptroller General does not approve two provisions of the bill which I believe are important. The first is the section which would create a Staff Office of Accounting in the Bureau of the Budget, to be headed by an Assistant Director.

It is quite true that this recommendation could be carried out by administrative action and I recognize the principle that it is generally desirable to avoid creating departmental organization by legislative action because this tends to result in a lack of flexibility. In this instance it seemed to me appropriate to take such action, in view of the fact that it has not been done by administrative means; and because Congress is charged with control of the purse, it seems entirely proper for Congress to clearly provide for accounting in accordance with requirements and standards it establishes.

It should be noted that as conditions change there is nothing to prevent the Director of the Bureau of the Budget from recommending changes in the Staff Office of Accounting, and perhaps the subcom-

mittee will deem it desirable to include a provision to this effect in the bill.

The second provision which GAO does not approve is the one requiring the establishment of the position of comptroller in each executive agency.

In practice probably every agency has a position that corresponds in some respects to a comptroller. It is recognized that due to the wide variations in organizational structure no one pattern will fit all agencies, but it would seem that creating a comptroller in each agency would not interfere unduly with the structural organization.

In addition it would appear that in view of the importance of improved fiscal performance there is much to be gained from the establishment of such a position together with the clear delineation of duties of the agency comptroller.

In view of the need for improved fiscal performance, the savings in the cost of operation of the Government to be realized through efficient financial management, and the need to put the Federal budget on a basis so that Congress can more intelligently make the important policy determinations as to the extent and scope of Federal programs, I strongly urge that the subcommittee take favorable action on S. 3199 at the earliest practicable date, after making such amendments as it deems necessary, so that the Congress in this session will be able to take positive action in this field of financial management, which is of such prime importance to every citizen.

Until steps such as those included in this bill are taken, the Congress will continue to encounter great difficulty, due to inadequate factual information, both in attempting to properly analyze the budget itself and in considering the appropriation bills covering the projected operations of the many departments and agencies of our Government.

Senator KENNEDY. I want to thank you very much, Senator, for your very fine statement. It will be very helpful to the subcommittee. Senator Smith.

Senator SMITH. Mr. Chairman, I would like to join you in welcoming my distinguished colleague, the junior Senator from Maine, and say that it is a great pleasure to listen to his statement and I greatly appreciate the opportunity to cosponsor S. 3199.

I well remember the request you made for the material, Senator, and I wondered what under the sun you would ever do with so much, but apparently, you made very good use of it.

Mr. Chairman, Senator Payne, as you have noted by his service here and by his statement, is very well qualified to talk on the budget and accounting procedures. As commissioner of finance and as governor, he had a long service and very good experience that gives him a right to speak with authority on this subject. I want to say at this time, Mr. Chairman, that I am very sorry that I have not been able to attend the hearings as much as I would like to. I shall read the complete hearing. I am in Appropriations most of the time, so I am not here, but it is not lack of interest but lack of time. Thank you very much.

Senator KENNEDY. Thank you. The statement and introduction of the bill is most helpful.

Senator PAYNE. Thank you very much. Mr. Chairman, if I may, I would like to request that a statement which has been prepared by

Senator Wallace F. Bennett, in connection with this same bill, of which he is a cosponsor, be placed in the record at this point. Senator Bennett was not able to be here personally.

Senator KENNEDY. Without objection, we shall be glad to have his statement entered in the record. I want to thank you very much, Senator.

Senator PAYNE. Thank you.

(The above-mentioned document follows:)

STATEMENT BY HON. WALLACE F. BENNETT, A UNITED STATES SENATOR
FROM THE STATE OF UTAH

Mr. Chairman and distinguished members of the committee, I'm happy for the opportunity of submitting today a statement in support of S. 3199, a bill introduced by Senator Payne a few weeks ago, which I was most happy to cosponsor. I think Senator Payne has done an excellent job in drafting this measure, and we are fortunate to have the benefit of Senator Payne's experience as a successful accountant during the consideration of the bill.

The bill has as its purpose the improvement of the budgetary and accounting procedures of the Federal Government and is based in large part on the recommendations of the Second Hoover Commission's investigation into this area of governmental activity.

For many years, both as a private businessman and as a Member of the Senate, I have been convinced that the budgetary and accounting systems of our Government were in drastic need of overhauling. There have been many attempts at modernization of the budget process, and considerable progress has been made since the Budget and Accounting Act of 1921. The Government Corporation Control Act of 1945; the 1949 amendment to title IV of the National Security Act of 1947; and the Budget and Accounting Procedures Act of 1950 were all helpful steps. But when I reviewed the report of the Second Hoover Commission to the Congress in June 1955, entitled "Budget and Accounting," it seemed evident that much remained to be done in improving the financial management of our Government. Dramatizing the need for such a revision is the conclusion of the Hoover Commission task force that a revitalized Bureau of the Budget, applying methods which private business has found essential to successful and economic operation, would bring improved financial management to Federal agencies, with savings estimated at \$4 billion a year.

While the bill presently before the committee embodies a majority of the recommendations of the Hoover Commission report it was thought wise to postpone enactment of some of the recommendations until a solid foundation based on the development of adequate accounting could be laid.

Recommendation 18 relieving the General Accounting Office of the necessity of approving claims on lapsed appropriations is omitted from the bill because legislation has already been introduced to take care of the situation. Recommendation 19 to the effect that the Comptroller General be given authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud is omitted because it was thought the provisions of the present law (Public Law 395, 84th Cong.) giving the Comptroller General authority to relieve disbursing officers in cases where payments were not the result of bad faith or lack of due care, were adequate.

To comment briefly on some of the important provisions of this bill, I should like to say that I consider the establishment of a new Staff Office of Accounting, headed by an Assistant Director, of great importance. I don't wish to imply any criticism of the activities of the Comptroller General in connection with the joint accounting program, since I think he has made considerable progress in past years; but I do believe that the establishment of such an office would be an effective means of improving and tightening accounting and financial methods in the executive agencies and in coordinating these activities with the Bureau of the Budget.

I think section 121, providing for the appointment of an agency comptroller by the head of each executive agency, will do much to coordinate the Bureau of the Budget's activities with the agencies and at the same time make available to the agency heads responsible persons, skilled in accounting, statistics, and analytical procedures.

Section 2 (c) of the bill provides that each agency maintain its accounts on an accrual basis to show "currently, completely, and clearly the resources, liabilities and costs of operations of such agency * * *." Basically, this involves a shifting to a cost-accrual method of accounting, requiring performance budgets in terms of costs. At present, most agency budgets are prepared on the basis of estimated obligations to be incurred during the budget year. Obligations such as orders placed, contracts awarded, services received, and similar transactions during a given period, requiring future payment of money, which are incurred during the year do not necessarily have any relation to actual costs during the year. The Hoover Commission report emphasized that such a budget presentation fails to take into account inventories and other working capital carried over and available at the beginning of the year which may be consumed in the programs of the budget year. One of the most important elements of proper budgeting is the work or service to be accomplished and what that work or service will cost. Current Government practice fails to relate planned operations to past and projected costs.

There are other elements of the bill that are worthy of comment, but I think the excellent sectional analysis of the bill which has been prepared by Senator Payne covers these points adequately.

This year, when I started to study the bulky 1,200 page President's budget, I was once again struck with the enormous size and complexity of our Federal Government. As a Congress we are charged with the responsibility of comprehending this mass of data and properly evaluating it in order to determine the desirability of the various Government programs and the amount to be allocated to each. The savings possible through the enactment of this measure plus the efficiency of financial management it makes possible and the added help such a program will be to the Congress in helping us make intelligent decisions with respect to Federal activities mark this measure as one of great priority.

I strongly urge the committee to take favorable action on this measure.

Senator KENNEDY. It is a great pleasure to have as our next witness today Mr. J. Harold Stewart, senior partner of Stewart, Watts & Bollong, Boston, Mass. He was Chairman of the second Hoover Commission's Task Force on Budget and Accounting; past president, American Institute of Accountants, Massachusetts Society of Certified Public Accountants; Chairman on Cost Principles, Joint Contract Termination Board and Assistant Director, Office of Contract Settlement during World War II; and I am very glad to have him here, because Mr. Stewart is one of our distinguished citizens from Massachusetts, and is recognized as one of the Nation's foremost authorities on accounting.

He gave a great deal of time and effort to this report of the second Hoover Commission's Task Force on Budget and Accounting, which I think is a real public service.

It is an honor to have you here, Mr. Stewart. Will you continue in your own fashion? Do you have a prepared statement?

STATEMENT OF J. HAROLD STEWART, CHAIRMAN, SECOND HOOVER COMMISSION'S TASK FORCE ON BUDGET AND ACCOUNT- ING

Mr. STEWART. Thank you, Senator. I do not have a prepared speech, but I will submit a written statement to the subcommittee later. (See p. 83 for statement of Mr. Stewart.)

Senator KENNEDY. That will be fine.

Mr. STEWART. As a matter of fact, I have spent the last 48 hours digging myself out of snowdrifts in New England.

Senator KENNEDY. We are glad to have you here. Perhaps when you submit your statement—of course, we do have the task-force re-

port, which I suppose, condenses your opinion—you might care to comment on some of the legislation that has been introduced and some parts of it that you might agree with or other parts that you might not agree with.

Mr. STEWART. My statement would be directed particularly to S. 3199.

Senator KENNEDY. Fine, sir.

Mr. STEWART. Senator, it is heartwarming to come here and follow a speaker in a person who understands this problem, as it is abundantly clear, Senator Payne does. Accountants are a peculiar breed. They are looked upon as technicians usually, but here we have a Senator from a great State, who understands the fundamentals of accounting, in the same fashion as a professional practitioner would, as is clear from his remarks.

Senator KENNEDY. I understood Senator Payne is the exception to that rule, unfortunately. The rest of us do not have experience.

Mr. STEWART. I have known Senators who came close but I don't know anyone who is his equal in the accounting field.

Senator KENNEDY. I would agree with that.

Mr. STEWART. S. 3199, as it appears to me, is an attempt to put into congressional mandate the essential recommendations of the Hoover Commission

Now, it might be interesting for you to know that the driving force behind many of these recommendations, the real impetus to this philosophy, was the belief that in this Government we needed on the executive side the same kind of drive, the same concept of financial control, that we had on the congressional side.

As we reviewed the performance in the years intervening, since the work of the first Hoover Commission, we found that there had been a cooperative effort by the Treasury, the Bureau of the Budget, and the General Accounting Office, designed to effect improvements in the operation of the executive branch of the Government.

What was done was all to the credit of the cooperative effort, but we concluded that the real impetus to that effort came from the General Accounting Office and not from the executive branch. Looking logically to the executive branch, we said, "Where should this drive be centered?" Clearly, by Executive Order and by its constitution, really, the Bureau of the Budget is the management arm of the President. It seemed to us that accounting is nothing but a tool of management, as is budgeting. In fact, the task force was of the opinion that the name, "Bureau of the Budget," was perhaps a misnomer and it dwarfed, by its name, some of its real responsibilities.

That was the one recommendation of the task force which the Commission, in its wisdom, did not adopt. We recommended a change in the name to more precisely describe the functions of the Bureau. We felt that the effect on the whole Government would be to alert them to the fact that the Bureau of the Budget does something more than process a budget which annually goes to the Congress.

We believe that its real concern was with the processing of that budget and that it had not directed the force or the drive to the management aspects, particularly, accounting reform that would seem to be implied in its management responsibility.

Now, I say this not critically because, remember, that we have spent one two-hundredth of 1 percent of the annual Federal budget in ad-

ministering the budget. As I remember it, about \$31¼ million was the figure in the budget which we reviewed for 1954. How on earth you can administer the greatest financial and operational organization in the world with an expenditure of one two-hundredth of 1 per cent, is beyond my canny.

I talked with one gentleman who had been a Director of the Budget and he agreed that one of the most useful investments, one of the most rewarding investments we could make would be a strengthening of the Bureau of the Budget to the point that it did discharge its responsibilities, particularly in the management field. Of course, the Bureau of the Budget is on the spot. When it is involved in a drive to reduce the budget, it probably has to set an example itself in order that the other marchers in the parade may follow. This is unfortunate because it starts from a position in which it is badly undermanned, badly underpaid. The pay of the people who are directing the Bureau of the Budget is certainly not what attracts them to positions of such responsibility. How you could get anyone in our great national corporations, which are still plebs, compared with this Government, for anything like the salaries they are paid, I can't understand and from that standpoint, I feel the most useful recommendations which the Hoover Commission has made are the recommendations in the field of Government personnel.

Until we can recognize that we have a big organization which has responsibilities even beyond the private responsibilities of industry, and until we can attract and fasten into this Government people of competence, we will have repetitive commissions, I suspect, that unless something is done in the personnel field, you will have another commission, 3 or 4 years from now, telling you the same story.

As to the bill S. 3199, it goes along on all fours with the recommendations of the Hoover task force. As Senator Payne said, the Commission's recommendation No. 7 for an annual budget in terms of accrued expenditures was not included. As I understand it, he had no real objection to its inclusion. He questioned the wisdom of including it at this time.

Senator PAYNE. In fact, I am very enthusiastic over it because I think it is one of the basic troubles that we face in our Government today.

Mr. STEWART. Well, we felt the same way, Senator. However, I am inclined to agree with you that until you get the basic foundation, until you get the accounting and financial reporting framework in this Government which will permit you to go to an accrued expenditure budget, it would be unwise to attempt it.

Senator PAYNE. And, until you attract personnel that understand what you are trying to get at and are willing to give them the tools to work with, which the Congress can provide in the form of legislation, you still are going to be out in left field.

Mr. STEWART. Exactly. Now, of course, I think it was Thaddeus Stevens who said of specie payment, "The way to resume is to resume."

Senator KENNEDY. Who did you say that was?

Mr. STEWART. Thaddeus Stevens, speaking of the resumption of specie payment. Thaddeus Stevens was a Republican and from Pennsylvania. [Laughter.]

Well, in any case, they say that the way to resume is to resume, and it might be applied to this. Perhaps the way to go to an ex-

penditure budget is to go to it, but I fear if you go too quickly, you will find that you will have some of the troubles you had with the performance budget.

In my opinion, the attempts to inaugurate a performance budget were premature. For that reason, there was a good deal of criticism and misunderstanding of what was basically a sound idea.

I would like, however, to see the Congress, by legislation, or otherwise, indicate its belief that the ultimate objective should be a budget in terms of annual accrued expenditures. In other words, this accounting foundation which we are laying, this foundation of management, is directed to the implementation through an accrued expenditure budget in management.

Senator KENNEDY. Mr. Stewart, do you think you can summarize exactly how that would work compared to the present budget? It is discussed in the task report, but it would be helpful.

Mr. STEWART. Let me put it in as simple terms as I can, Senator. At present, the budget is concerned with obligational authority. The agencies go to the Congress and request obligational authority for various purposes. Now, that authority is usable in multiple years. Some of it, as Senator Payne pointed out, is for long lead-time items. In the purely housekeeping agencies and creations of the Congress, for instance, such as the FCC, ICC, Securities and Exchange Commission, the Bureau of Internal Revenue, even the Treasury, the difference between accrued expenditures and obligational authority would be rather narrow. But, it is in those agencies, in the fields of defense and foreign aid that the impact of a budget in terms of accrued expenditures would be particularly felt.

Senator PAYNE. If I might, Mr. Chairman, the reason for that is because the agencies that you refer to, like ICC, FCC, SEC, the Treasury Department, and some others of a similar nature, have annual needs for the operation of the Department which are not such as necessarily would confuse the issue too much. They are rather stable in their nature, year in and year out. They deal with personnel with certain commodities, contractual agreements, and so forth, and can pretty well be earmarked.

Mr. STEWART. Exactly. They operate essentially with personnel, supplies, services.

Senator KENNEDY. This would deal with the effective no-year appropriations?

Mr. STEWART. Exactly.

Senator KENNEDY. Would you explain how your system would work in the purchase of planes? Would it give us more control?

Mr. STEWART. Let's take a battleship rather than a plane. We all know it takes 4 or 5 years to construct a carrier. The Defense Department would come to Congress and say that we require vessels in a certain category, and convince the Appropriations Committee, and Military Affairs Committees, that the construction of a carrier was wise and they should have appropriated funds. You would give them initially, contractual authority, which would permit them to enter into a contract but you would say to them, "We want a projection from you as to when and how you are going to spend the money."

Let's say you are spending \$50 million on a ship. What is your time schedule? Now, you do that in industry, and say the Standard of

New Jersey, for instance, wants to build a refinery in Venezuela. The Comptroller has to lay out the needs for funds, when they will be needed and the length of time required to complete the project.

Now, initially, the Department would be given enough funds to take care of the accrued expenditures, that is, that doesn't mean cash out of the till. That means to take care of the services and goods which would be received during a fiscal year, whether paid for or not, because if they incurred the expenditure by acquiring services or goods, to that extent, the Government is committed.

At the moment, you have the right of the Government to cancel any contract and pay whatever the termination charges may be, so that you wouldn't be altering, really, the present situation as it concerns the private contractor. He is always exposed to that, but you would be saying to the Defense Department, how much money in terms of dollars do you need for fiscal 1958? When they come in with the next budget on an accrued expenditure basis, there would be a review of the extent to which performance met promise. In other words, you told us last year that in the first year, you would need \$10 million for this project. Now, how much of it have you spent? If you have spent \$2 million, why? If they wanted to spend more, they would be in to see the Congress for supplemental appropriations for the year, but it would give Congress a feel of the pulse of Government expenditure, rather than leaving it open-ended.

Now, in the field of aircraft procurement, which Senator Payne referred to, as I remember it, in January 1954, the Defense Department was asked what the carryover of unobligated expenditures would be at the end of the fiscal year, June 30, and that was in connection with processing an appropriation bill. The response was, "Under \$2 billion." I forget the exact figure, one billion nine or something like that.

On June 30, when the fiscal year ended, it was then possible to determine what the carryover was and the carryover was in excess of \$4 billion.

Senator PAYNE. Let me just say there that it was possible, Mr. Stewart, but I have a very definite reservation in my mind as to even then, whether the figure was an accurate figure.

Mr. STEWART. I agree with you on that because I think one of the real lacks in this Government, particularly in the Defense Department, is a control of obligations. As I understand it, Congress passed legislation which required the Defense Department to report outstanding obligations.

Senator PAYNE. In fact, required all departments to report and the General Accounting Office has done a remarkably good job, but they have had a hard job.

Mr. STEWART. But, as you know, it followed a long period of argument as to what constituted an obligation and legal definition of obligation, and to the point it was abundantly clear that the furnishing of such a figure was not a comfortable job. It seems to me, comfortable or not, it is a figure which the Congress should have.

Now, if you look at the carryover of unobligated expenditures, you will get an idea of what I am talking about. The unexpended balances of appropriations for the year 1950, which was before Korea, remember, were about \$11½ million brought forward into the year;

1951, fourteen billion, one hundred million; 1952, due primarily to Korea, fifty billion, three hundred million; 1953, sixty-eight billion, eight hundred million; 1954, seventy eight billion, four hundred million; 1955, sixty-eight billion; 1956 estimated at the time we did the job.

Senator KENNEDY. That is unexpended, not unobligated?

Mr. STEWART. Those are amounts unexpended—balances of appropriations.

Senator PAYNE. And they can be unobligated balances as well.

Mr. STEWART. Most of them are unobligated; yes.

Now, you see, the concept of controlling the financial operations of the Government through the obligational system, places a premium on obligating all funds before the availability of them expires.

Senator PAYNE. That helps them in coming before the Budget Bureau and the Congress the next year and say, "Look, this is what we had last year. We have got to have at least as much to operate this year, if not a little bit more." There is no attention given to what the actual expenditure is or the cost basis of the operation.

Senator KENNEDY. Does not Congress take into consideration the unexpended balance of the appropriation in appropriating the next year?

Mr. STEWART. If the Congress knows what they are. I think that has been a rather flimsy figure.

Senator KENNEDY. You feel the Congress has not been given accurate figures?

Mr. STEWART. Congress has been doing the best with what they have had.

Senator PAYNE. If I may, at this point, I think it is true that they have had very little information with regard to the pileup of inventories of supplies and of things that were brought in the prior year that are going to be used in this next year and you will find, and I notice it is true in State government itself, they do exactly the same thing. They always have to justify at least having as much as they had the previous year and as much more as they can get. It is a pyramiding proposition.

Mr. STEWART. When you talk about inventories, that is one of the targets that this will hit. At the moment, the Defense Department particularly is still wrestling with the problem of establishing inventories. Now, I have great sympathy with them in their job. It is a tremendous job but it seems to me that everything that is in this bill is directed toward strengthening the hands of people who want to get an accountability that will show what they own, what they owe, and what they have done with what they had. There are shortcomings in that field right now, as you know, Senator.

Senator PAYNE. Yes.

Mr. STEWART. The difficulty with the obligational system is the emphasis which it places upon using appropriated funds. That comes about partly because it is useful in going to the Congress for additional funds to show that you used what they gave you last year, but there is another facet of the problem. Congress appropriates the funds and they go to the agencies for use. Well, in the agency, we believe there should be an administrative budget and operational units should present the budget in meaningful terms.

As it stands at the moment, that is, not at the moment but at the time we made our examination, the administrative control of funds in the Department of Defense was being attempted through a so-called allotment system. The exact number of allotments we couldn't determine. We were told that there would be at least a million.

Now, I ask you, could you run any enterprise with a million allotments? The minute you set allotments 18 months in advance of use, you are pyramiding it and you are doing it on the basis of fragmentary cost information, and you are doing it on the basis which places the only criteria of performance on your ability to live within an allotment. That means if you don't spend more than the allotment, you have done a reasonably good job.

Now, we believe that with emphasis on cost, and cost by organizational units and functions, we could get away from that allotment concept and substitute what you have in industry. As a matter of fact, this accrued expenditure theory is not completely new to Government. I talked last spring with Dr. May in The Hague. He tells me that he worked and ultimately did place the accounts of the Dutch Government on an accrued basis. I have nothing but his word for it, but I would be interested and I think you might be interested to see whether that has not been done.

Senator PAYNE. I think that I read a treatise on that a little while ago, indicating that that has taken place. In connection with your statement on this breakdown of allotments in the Defense Department, let me say that, unfortunately, I happened to be tagged while I was in the Air Force, although I wanted to be in another line of work, with establishing the first approach to the development of a budget system in the Air Force.

I can subscribe fully to what you have said with regard to allotments. For instance, I was with the Flying Training Command and we were divided by breakdowns in the major commands over the country with Eastern, Central, and Western Flying Training Commands and with the technical training commands that also came in. They were broken down from Headquarters, Air Force, here, where I eventually landed at the last end of the war, down to the separate commands, then from the separate commands down to subordinate commands, and then from subordinate commands down to field commands, and it embraced even in the setup alone, thousands of separate allotments that were handed down to the field. I can tell you from my own experience, that whenever we endeavored to tie down what amount was available on an allotment given at any specific period, strangely enough, the word always came down from somewhere to the effect, regardless of what the actual encumbrances against that allotment were, "Report your obligation against that allotment as being approximately the amount that you have in your possession because we just can't afford to lose it as we have to make another stab at this thing next year."

So, that is the danger that you get into and it is not true of the Federal Government alone, as you run into it, Mr. Stewart, in State government and in every phase of government that you get into. It is an awfully hard thing to get away from and until you get something of the nature we are talking about here, you will never correct it.

Mr. STEWART. Now, even in the Department of Defense, they admit that it is possible. I have seen a letter from Mr. McNeil, the Comptroller, in which he says that it is feasible. It will present some administrative problems but they are not insurmountable. Of course, anything you do presents administrative problems.

Have I dwelt on that sufficiently, Senator?

Senator KENNEDY. Yes.

Mr. STEWART. I could go on for days on that one.

Senator KENNEDY. No, I would like you to go on to your next point. You have the bill in front of you. Would you care to go through it, maybe section by section, and tell us your opinion? Of course, they are all implementing the previous recommendations that you have made, but perhaps you could explain some of the different sections and also tell us what is in this bill, or the bill that we had hearings on yesterday, that would be worth the subcommittee's interest.

Mr. STEWART. I think I might short-cut this by saying that the only real question is whether or not some of these recommendations can be effected more quickly and more effectively by administrative means or by Executive order, if you will, or whether they require legislation.

Personally, if I were a Senator and I had a feeling that there was any dragging of the heels on the executive side of the Government, I would feel constrained to take the legislative route. But I haven't been present at these hearings and I don't know what resistance, if any, there might be. I suspect that there is very little in this that could be disagreed with in principle.

The first one that there might be a question raised on, 216 (b), could be done administratively. Of course, if it is done by congressional action, there is the additional spur that comes from the Congress having taken action on it.

Section 218 I think is a bit extreme because, as I see it now, the Director of the Budget has the responsibility which is set forth in that section.

Senator PAYNE. And, as a matter of fact, is trying to accomplish this very thing.

Mr. STEWART. Yes, and I think the structure, for instance, of, "Not more than 2 persons for each principal subdivision of a department or establishment shall be assigned by the director to any 1 department," would be unnecessarily restrictive. There might be times when you would want to really put shock troops in to a situation, and other times when you might want nobody.

Senator PAYNE. Of course, at the present time it is almost impossible to get people into Government that can comply with the qualifications I set forth here.

Mr. STEWART. I would think section 218 could be done better administratively.

I agree to everything until we get to section 120. That is the controversial one which I understand the General Accounting Office has a feeling shouldn't be done.

One reason for doing it, it seems to me, is to put some drive under this reform of financial reporting and accounting in the executive branch. It seems to me whether you do it by setting up a statutory office or whether you do it by taking a position that there should be in the Bureau of the Budget an Assistant Director for Accounting, we

will say, appointed by the Director of the Budget, I think is a matter for you gentlemen to decide.

I do think that something should be said in the legislation about the undertaking of that responsibility. I might say that the General Accounting Office, we found, was the most constructive influence in this whole Government accounting picture. Through their Systems Division, they had done a good deal to help agencies which had nowhere else to look. Logically, the agency should have been able to look to the Bureau of the Budget.

In the General Accounting Office they should be able to review this executive performance, rather than find that they actually had to do the job in some cases.

Senator PAYNE. Well, it is true, is it not, Mr. Stewart, and I agree with you, the General Accounting Office has done a remarkable job and without the type of work they have done, Lord only knows where we would be on our fiscal setup.

Mr. STEWART. That is right.

Senator PAYNE. But if the Bureau of the Budget with competent personnel and with adequate personnel were able to carry out many of the recommendations the General Accounting Office makes from time to time, and to work very closely and get the agencies and departments of the Government adopting more and more of these constructive suggestions and developing consistent overall policies, it would make the job of the General Accounting Office much more simple in their effort to do a factual and complete job of postaudit which, of course, is their prime responsibility.

Mr. STEWART. It would.

Senator SYMINGTON. Mr. Chairman, may I ask a question there?

Senator KENNEDY. Yes.

Senator SYMINGTON. I am sorry that I have been late, Mr. Stewart, but I have been to another hearing from 9:30 to just now. Let me be sure I understand what this bill is getting at, as you see it. The Director of the Bureau of the Budget will send two people to work in the Department of Defense?

Mr. STEWART. Well, before you came in, Senator, I suggested that that section seemed rather extreme because 2 people or 22 people in the Department of Defense would still be wrestling with an impossible problem.

Senator SYMINGTON. As I understand it, first, the budget of the Department of the Army is made up by the proper people within the Department and submitted to the Secretary of the Army; is that correct?

Mr. STEWART. That is right.

Senator SYMINGTON. And then the Secretary of the Army submits that budget, as do the Secretaries of the other two services, to the Secretary of Defense; is that right?

Mr. STEWART. That is right.

Senator SYMINGTON. And there it is examined and possibly changed. Then it is submitted to the executive branch of the Government at the level of the White House; is that correct?

Mr. STEWART. As I understand it.

Senator SYMINGTON. Right, and that is generally the Director of the Bureau of the Budget. He is the one that takes the next look at it.

Mr. STEWART. He is the fellow that gets the last look.

Senator SYMINGTON. Now, inasmuch as 65 cents of your tax dollar is for current military preparation—84 cents of your current tax dollar is for past, present, or possible future war—would it not be difficult to change any aspect of the situation by having two additional or two less people in the Bureau of the Budget?

Mr. STEWART. Well, I personally don't subscribe to writing into legislation what really is an administrative problem. In other words, if I were Director of the Budget, I would feel I should be free to apply as many or as few people as I wanted to any department.

Senator SYMINGTON. In other words, to do the job with whatever is necessary?

Mr. STEWART. That is right, and I would have to take responsibility for what is done. In our recommendations, we urged that within each department, the Bureau have a staff that is going along from day to day, and which is completely conversant with what is happening in the department. But again, until you can get the people, you can't do the job. I don't think anyone, after the fact, can take a look at that defense budget and know much about it.

Senator KENNEDY. Mr. Stewart, I would like to have you just sum up for Senator Symington what you talked about, how you feel the defense budget should be changed from the present system because he is very interested in that part of it and I would like to have his opinion on it.

Mr. STEWART. Senator, any change in the defense budget, maybe it is a masterpiece of understatement to say, is going to take time. It seems to me and it seemed to our task force, that a cost-based budget in terms of accrued expenditures was the most effective means of controlling the military budget.

Senator SYMINGTON. Now, I am sorry, but I do not exactly understand what you mean by that. I have defended military budgets and I have been in business but I would like your explanation, first, as to what that means per se, and second, as to how it differs from the current way of operating.

Mr. STEWART. The current budget is enacted in terms of obligational authority for multiple years.

Senator SYMINGTON. Obligational authority for multiple years. As I understand it, each department is given so much money in the way of appropriations which it can use. Some of it has to be used in the 12 months of the fiscal year in question and some of it can extend because of the nature of the product being purchased, beyond the fiscal year in question?

Mr. STEWART. Exactly.

Senator SYMINGTON. Is that right?

Mr. STEWART. Yes.

Senator SYMINGTON. I understand that is the way they operate now, on the basis of appropriations, obligations and expenditures; right?

Mr. STEWART. Yes.

Senator SYMINGTON. Now, go ahead.

Mr. STEWART. Once the money goes to the Defense Department—

Senator SYMINGTON. What did you say?

Mr. STEWART. Once the moneys are appropriated by the Congress and they are available for use, for obligation, you then have the problem of administering that budget within the agency.

Senator SYMINGTON. Yes.

Mr. STEWART. At present, the administration has attempted, through a so-called allotment system—that allotment system has over a million allotments, allotments and suballotments and administrative subdivisions of suballotments, so called——

Senator SYMINGTON. Now, when you say that the Department of Defense allots the money to each of the services——

Mr. STEWART. It first goes to the services.

Senator SYMINGTON. Right.

Mr. STEWART. Then within the services, it goes to various activities.

Senator SYMINGTON. Right.

Mr. STEWART. And you will find allotments as little as a thousand dollars and our feeling was that in an operation of that size, it is impossible, 18 months in advance, empirically, to look at a situation and say that this particular item of this particular activity should have a thousand dollars.

Senator SYMINGTON. Actually more than 18 months, if you formulate for the fall of the next fiscal year.

Mr. STEWART. That is right. So we say, let's get some accounting in this picture; let's understand what they are doing with this money in terms of operational or organizational units. For instance, it is much more intelligible to take a look at an operation like a hospital and say, "How much money do you want for the hospital," and appropriate in terms of what you need for that hospital, rather than appropriate in terms of pay of medical personnel, pay of civilian personnel, pay of any other services that you may acquire outside, a multitude of supplies, and so forth. In other words, if you assign management responsibility within the Military Establishment to people, that responsibility can be gaged in terms of projected budgets.

Senator SYMINGTON. What you are saying is that you would like to see, in effect, a unit cost system applied instead of a departmental cost or subdepartmental cost system, is that right?

Mr. STEWART. That is right.

Senator SYMINGTON. I can see right away that the unit cost system will give you a better control of efficiency, but how about from the standpoint of bookkeeping, would it not be more difficult?

Mr. STEWART. As a matter of fact, I think they are doing more bookkeeping under a system that has a million allotments than you do under a system that went directly at organizational costs.

Senator SYMINGTON. But, you are going to have quite a few units, like hospitals?

Mr. STEWART. You are still accounting for them. Our feeling was that what we recommended should not increase the costs of accounting but should give you something more useful.

Senator SYMINGTON. To whom did you recommend it, Mr. Stewart?

Mr. STEWART. We recommended it to the Congress.

Senator SYMINGTON. When?

Mr. STEWART. I was chairman of the task force of the Hoover Commission.

Senator SYMINGTON. Did you discuss it with the Department of Defense?

Mr. STEWART. We did.

Senator SYMINGTON. Did you have hearings and have people over there from the Department?

Mr. STEWART. No.

Senator SYMINGTON. For example, what was your relationship as chairman with Mr. W. J. McNeil, the Comptroller of the Department of Defense?

Mr. STEWART. Well, I have known Mr. W. J. McNeil since the war years in the Navy. I knew some of McNeil's training, his background, his capabilities, and I knew some of the people with him. I had on my task force, one man who had worked intimately in the Department of Defense for quite a period.

Senator SYMINGTON. In what position?

Mr. STEWART. He was special assistant to McNeil.

Senator SYMINGTON. What was his name?

Mr. STEWART. Sullivan, Joseph M. We had in addition, the Department of Defense study, which had been made by the so-called Cooper committee. This was made about the time that our task force was created.

Senator SYMINGTON. What year?

Mr. STEWART. Well, it was so long ago, I would say in 1954. That was Charles P. Cooper, who used to be executive vice president of the American Telephone & Telegraph Co. He was asked by Mr. Wilson to make a review of fiscal control within the Department of Defense. We had, at the outset—the question was whether this project would be helpful to us in our work or hinder us. When I looked at the composition of the group, I personally was satisfied that anything that came out of it would be helpful. They made a study and made a report.

Senator SYMINGTON. Who made a study and who made a report?

Mr. STEWART. The Cooper Committee.

Senator SYMINGTON. Of the Hoover Commission?

Mr. STEWART. Oh, no, a study of the Department of Defense.

Senator SYMINGTON. At the request of Mr. Wilson?

Mr. STEWART. Request of Mr. Wilson and reported to Mr. Wilson. I talked at great length with Mr. Cooper and with some of the people who headed the accounting function for him. They were in substantial agreement with our task force. I didn't talk with them until we had ourselves spent time in the Bureau of the Budget, spent time with the General Accounting Office people, and in the Department of Defense, and had talked with people and had some feel of what our own position might be.

Senator SYMINGTON. Now, more specifically and for guidance, the task force for the Department of Defense under Mr. Cooper was in substantial agreement with your recommendations here to the Congress?

Mr. STEWART. I would say it was.

Senator SYMINGTON. That is what I wanted to know.

Mr. STEWART. I would say it was, although they didn't go as far as we went. They did not recommend that accrued expenditure budget, as I remember it, but they did recommend the setting up of—

Senator SYMINGTON. What do you mean by "accrued expenditure budget"?

Mr. STEWART. An annual budget in terms of the expenditures which the departments expect to incur, as the cost of goods and services to

be acquired during a year. That means whether they have paid for them or not. In other words, if they have had services rendered and haven't been billed. This is accrual—they owe the money, just as in business. If they have had supplies delivered to them and have actually used them, they have them under their possession, they would be accountable for them.

In the ordinary agencies of Government, that is, the housekeeping agencies, it would make very little difference, as you know, because all they deal in is salaries, services and supplies. In the Defense Department, we felt the advantage of an accrued expenditure budget would be a continuous look at these long-lead-time items. In other words, you go to the Congress and get an appropriation which would take care of your projected expenditures for a particular year. You would say also, now we are building a battleship, and we want contractual authority for a period longer than a year.

Senator SYMINGTON. You have that already. Let's take a bomber.

Mr. STEWART. You might have a bomber contract.

Senator SYMINGTON. I think if you laid a hull, you do not have to come back and get additional money for higher cost of a ship. At least, that is the way it used to be. Let's take a bomber.

Mr. STEWART. I will take a bomber contract. Initially, of course, you would have the development work. You would have to put enough in the budget under general development to take care of the development of the bombers, fighters, or whatever you had. Once a bomber had reached a stage of production, taking into account starting load costs and the final upswing in costs at the end of production, you would estimate what a certain number of bombers was going to cost you. You would say that, well, within fiscal 1958, we believe that we couldn't get delivery of more than 150, and 150 at a price which takes into account starting load costs and tapering off costs, which would be approximately X hundreds of millions of dollars.

That would be in the budget but the Air Force says, "Look, we need more than 150, we need 500." All right, then we will give you contractual authority to go ahead with 500. The next year when you come in, you again say how much money you need.

Senator SYMINGTON. You have put in the expenditure budget, as you call it, the amount of money that you believe will be necessary to pay for what you get during that year?

Mr. STEWART. That is right.

Senator SYMINGTON. But, at the same time, you also give, by law, the Air Force the right to contract for additional bombers, which you will not have to pay for in that year?

Mr. STEWART. That is right.

Senator SYMINGTON. Is that correct?

Mr. STEWART. That is it.

Senator SYMINGTON. That certainly is logical to me. Let me ask you, how does that differ from the present law?

Mr. STEWART. Well, as I understand it, under the present law, there is no cutoff point at the end of any year. You would have to get the Air Force money at the moment. You would give then so-called no-year money—

Senator SYMINGTON. No year?

Mr. STEWART. Called no-year money.

Senator SYMINGTON. What do you mean?

Mr. STEWART. Money that is not limited to the particular fiscal year in which it finds itself in the budget. In other words, the Air Force says, "We have a 3-year program under which we will need X number of bombers."

Senator SYMINGTON. I see what you mean.

Mr. STEWART. So, we now want obligational authority and we will immediately go out and obligate these funds or we may drag our heels.

Senator SYMINGTON. I understand. Let me ask you 2 or 3 questions around that. Would the contracting company, the supplier, accept a contract on that basis? Do you think he would consider it was an obligation of the United States Government?

Mr. STEWART. I think he would. I think he would be even better protected on that basis than he is now.

Senator SYMINGTON. Let me ask you the next question. Suppose you got a lot more airplanes, which would be a pleasant surprise, putting it mildly, than you expected during that year. Where would the money come from to pay for them under an expenditure budget? Would you get a supplemental?

Mr. STEWART. If you underestimated, just as you do now, you would have to go in for a supplemental.

Senator SYMINGTON. Suppose that you did not get nearly as many airplanes as you thought you would get, due to a change in design, which is very customary, because you are not designing for profit, you are designing for security, and the change comes in and you have many more engineering changes which hold up production. If you have an accrued expenditure budget, what do you do with the money that you do not spend that you thought you were going to spend?

Mr. STEWART. It would be included in the next year.

Senator SYMINGTON. Just be a carryover then.

Mr. STEWART. You wouldn't carry it over.

Senator SYMINGTON. What would you do with it?

Mr. STEWART. Come before the Appropriations Committee on your next year's budget and say, "Last year, we asked for money for 150 bombers. We only acquired 50. This year, we want 250," and at that point, the Appropriations Committee would take a look and say, "What has your performance been on your promise originally?"

Senator SYMINGTON. What I want to know is what do you do with the money if in an accrued expenditure budget you asked for money to pay for 100 bombers and you got 10? You have the money and it has been appropriated by the Congress and is in the hands of the Department of Defense and Air Force, but you do not have the bombers and you certainly do not want to pay for them if you do not get them. What do you do with that money?

Mr. STEWART. That money just lapses and goes in on your next appropriation.

Senator SYMINGTON. Then you just do not have that money any more?

Mr. STEWART. That is right.

Senator SYMINGTON. So you have an automatic cutoff?

Mr. STEWART. Because you didn't need it.

Senator SYMINGTON. Because you didn't need it?

Mr. STEWART. That is right.

Senator PAYNE. Because you did not use it. You may have needed it.

Senator SYMINGTON. This is very interesting. What is the difference really between that and between a normal budget where you appropriate the money but you do not spend it unless you get the product and you carry it over unless you cancel?

Mr. STEWART. Under this system, you are directing your attention to accrued expenditures rather than obligational authority. Now, the temptation, if you have obligational authority, is to use it.

Senator SYMINGTON. Yes.

Mr. STEWART. Because it helps you get more obligational authority. If you focus attention on accrued expenditures, the Congress then gets a look at this moving performance and it can see to what extent the services actually needed the money or to what extent they have actually used it. They may take another look and say, "What do you need this year? How much surer are you than before?"

Senator SYMINGTON. I did not hear that, I am sorry.

Mr. STEWART. They see in the second year, when you come in, after you haven't used your funds that year, what has happened and Congress would be alerted to the fact that they had expected to acquire 150 planes and only acquired 50. The question would be why?

Senator SYMINGTON. Now you are talking management. You are not talking accounting.

Mr. STEWART. Accounting is a tool of management.

Senator SYMINGTON. When you say why, that is management.

Mr. STEWART. Yes.

Senator SYMINGTON. I completely agree with you that we have a wonderful system in the Department of Defense to see that nobody steals any money but a rotten system to see how we can operate better, based on our accounting. Do you agree to that?

Mr. STEWART. I do.

Senator SYMINGTON. We have no management accounting but we have great recording accounting.

Mr. STEWART. That is right, purely historical.

Senator SYMINGTON. I am in agreement with you, Mr. Stewart. However, I am a little worried about the position of the contractor, how he would feel if this money is not actually appropriated because he has a great deal of expense that he cannot unit cost out against that delivery, which he might be afraid of losing, especially as he has a rather rough time, as you know, with the supervisory departments in the services.

Now, let's get back to the question that I asked a few minutes ago. As I understand it, Mr. Cooper agreed with you and you agreed, in effect, with Mr. Cooper and if there was any difference, it was one of degree and not of system, is that right?

Mr. STEWART. That is right.

Senator SYMINGTON. Now, what was the position of the Department of Defense in this matter? In other words, what was Mr. McNeil's position, because he is the one, as we all know, that runs the money in the Department of Defense?

Mr. STEWART. My understanding is that Mr. McNeil agreed with most of the Cooper committee's recommendations, but did not agree with all of the accounting recommendations.

You see, they went to such matters as procurement in their review.

Senator SYMINGTON. Who did?

Mr. STEWART. The Cooper committee.

Senator SYMINGTON. We are not talking about that. We are talking about your recommendations here which I thought Mr. Cooper was in agreement with.

Mr. STEWART. As I understand it, Mr. McNeil agrees with our recommendations.

Senator SYMINGTON. The ones that you have made here?

Mr. STEWART. Yes.

Senator SYMINGTON. And is there any objection in the Department or any objections in the Government to the recommendations you have presented here?

Mr. STEWART. I haven't seen any.

Senator SYMINGTON. Nobody has told you about that?

Mr. STEWART. No.

Senator SYMINGTON. You think if you wrote to the Department of Defense and asked for their opinion or the chairman did, that they would come back and say they approved your recommendations?

Mr. STEWART. I believe they would.

Senator SYMINGTON. Do you think all the long-term contractors, for bombers, where there is no special legislation—would they approve it, too?

Mr. STEWART. I don't know.

Senator SYMINGTON. If they would not, why do you think they would not? I am just asking for information.

Mr. STEWART. Because it hadn't been properly explained.

Senator SYMINGTON. If it was properly explained, they would approve it?

Mr. STEWART. I believe if it were properly explained, they would see advantages in it, the advantages being this: Suppose I am a contractor—

Senator SYMINGTON. I would like to hear the advantages, but inasmuch as the Department of Defense, you say, agrees with your position—

Mr. STEWART. Well, Senator, I am talking about our report as a whole on the accrued expenditure—

Senator SYMINGTON. What is the difference between your position and your report? Is not your report your position and your position your report?

Mr. STEWART. But the accrued expenditure aspect is but one facet of the whole problem.

Senator SYMINGTON. Let's talk about accrued expenditures. Did the Department of Defense agree with that part of your report?

Mr. STEWART. I haven't seen them take a particular position but I have seen a letter in which Mr. McNeil said that he believed it was feasible. It would present some administrative problems but it could be done.

Senator SYMINGTON. A lot of things are feasible that you do not agree with.

Mr. STEWART. Exactly. I suspect that it would take some education in the Department of Defense.

Senator SYMINGTON. You think they need it?

Mr. STEWART. I do, yes.

Senator SYMINGTON. From the standpoint of business management?

Mr. STEWART. I do.

Senator SYMINGTON. Would you mind if I joined you in that?

Senator PAYNE. If I may join in, Senator, it has been needed for a long, long time.

Senator, would you be willing to yield the floor at that point? The point Senator Symington is driving at is the very thing that you were recommending and would give an answer to the very many constructive positions that Senator Symington has taken with regard to certain accomplishments under programs enacted by the Congress. It would pinpoint and definitely explain before the congressional Appropriations Committee the exact determined accomplishment that a department made, whether it is Air Force, Army, Navy, or any other agency of the Government, with the moneys that the Congress gave to them to be able to carry out a specific program.

If they did not accomplish it, they would be in before the committee having to justify why they had not and why they are going to need so much more the next year.

Senator KENNEDY. Just to get it straight on the obligation, when Congress gives authorization for the purchase of 100 planes, instead of taking a 3-year period, then the Appropriations Committee does not appropriate the entire amount that first year; do they?

Mr. STEWART. Yes, they give them obligational authority for the entire amount.

Senator SYMINGTON. Which the contractor of the airplane could consider as an advantage. They can see the money and they have a lot of expenses.

Senator KENNEDY. It does not have to be reviewed again?

Mr. STEWART. That is right, Senator, and they feel it is an advantage, but they also get things known as cancellations and change orders, which, as you know, are very disconcerting to the contractor.

Now if you are trying to obligate money in order to retain it, you are bound to put out some contracts that you later want to change. If I were a contractor, I would like to feel I had a firm contract which they intended to go through on.

Senator SYMINGTON. The truth of the matter is, through the utilization of engineering changes you can take any fixed price contract and make it a cost-plus contract; am I correct?

Mr. STEWART. That is right.

Senator SYMINGTON. I would like to ask one more question, Mr. Chairman. May I proceed?

Senator KENNEDY. Yes.

Senator SYMINGTON. We get a great big telephone book called the budget and we are given a few days to look at the budget and approve it. Do you think it might be constructive to have people allocated by the House Appropriations Committee, for example, and Senate Appropriations Committee, who would be physical participants to listen to the way that the budget was formalized, so that when the book came they could explain it themselves or, during the process, they could explain, for example, to the chairmen of the subcommittees in question, what the budget was all about? Have you ever given any consideration to that idea?

Mr. STEWART. Yes; we did. As a matter of fact, I can tell you within our task force we felt that the Appropriations Committees were inadequately staffed, but our job was to review the executive branch. We thought it might be presumptuous to make that sort of recommendation, but the General Accounting Office, as you know, has been very useful to the Appropriations Committees in certain limited areas.

It seemed to me that they might be used even more.

Senator SYMINGTON. For example, if you formulate the budget of 1 of 3 services, 90 percent of the work is done below the Secretary of that service. That would be my guess of the hours of work. Say 5 percent is done in the Office of the Secretary of Defense, and the other 5 is done in the executive branch above the Department of Defense, primarily in the Bureau of the Budget. Those figures could be adjusted but, in general, that might be accurate.

Would it not be wise to have representatives of the legislative branch, with the premise that we have some authority in this picture with respect to money, allocated to the committees of the Congress, or allocated to the departments in question, so they could watch the budget being formulated? It starts being formulated on the first of July of the following fiscal year and then they work on it in July, August, September, October, and they generally get it to the Department of Defense around October, perhaps as late as November. Then it goes to the Bureau of the Budget and is rushed through for the President's message in January. That is about the chronology, is it not?

Mr. STEWART. Yes.

Senator SYMINGTON. You really do not have much of a look. You would certainly have a much better look if you worked in the department. Would you agree to that?

Mr. STEWART. Well, I don't know. I hadn't thought of it, Senator.

Senator PAYNE. Let me say this, if I may, Mr. Stewart and Senator Symington. The thing that you have suggested is a very sound one and, as a matter of fact, has a great deal of background behind it, not in the Federal system unfortunately, but it is a regular practice basically in State government, that in compilation of the budget, in the appearances of various departments and agencies of State government, that representatives of the legislature, representing both the House of Representatives and the Senate, are chosen to sit in and listen to all of the data that goes to make up the budget that is finally to be presented and they are able to be of service both to the committees of the Congress or to the State legislatures, and are able to stand on the floor of the Congress and give specific information relative to any points that may be raised concerning any feature of it.

Senator SYMINGTON. I think that is most constructive. Thank you, Senator. I did not know that.

Senator PAYNE. It is done in State governments.

Mr. STEWART. I can see advantages in that but what is the sense in having them sit in if the basic facts which support a decision are not available?

Senator SYMINGTON. I will say this, that in the five military budgets that I defended myself. I was convinced that the Congress approved reductions, recommended after the budgets left the departments in question, on an economic, and/or a political basis, which they would not have done if they had gotten the true security import of the budget.

I do not think the legislators can ever get that full understanding unless they are in on the formulation of the budget at the working levels of the department in question.

Thank you, Mr. Chairman.

Senator KENNEDY. Mr. Stewart, we thought we might try to get the Department of Defense to come up and comment on some of the points you just made, and put them together in that way. Perhaps you would care to listen and at the end of the hearing, you could perhaps give up any further thoughts you might have, either by letter or memorandum. Would that be agreeable?

Mr. STEWART. I shall. I told you that the Department of Defense, I believed, concurred in these recommendations. I believe they all expressed their position in writing, as I understand it, which is more authoritative than anything I can say.

I would like to say that from an accounting standpoint, the Department of Defense has been completely inadequately staffed. You can't run the biggest accounting organization in the world with one man on the top, and by the time we reviewed it, there were simply two men of supergrades directing the accounting policy. It is completely inadequate.

Senator SYMINGTON. I beg your pardon?

Mr. STEWART. I am saying that the Department of Defense, from an accounting standpoint—I am talking about topside, is inadequate. You have a Comptroller and he had as his assistant, at the time we made our review, only one individual of a supergrade. I ask you, how can you run the biggest financial organization in the world with that kind of sketchy support?

Senator SYMINGTON. Mr. Chairman, I would like the record to show that Mr. Stewart and I never discussed this matter before this hearing. I could not be in more agreement with him.

Senator KENNEDY. I think he really rendered a great help to the committee. Mr. Stewart, we appreciate your coming down.

Mr. STEWART. Thank you, Senator. I will write you.

(Statement prepared by Mr. Stewart for insertion in the record follows:)

STATEMENT OF J. HAROLD STEWART, CHAIRMAN OF THE HOOVER COMMISSION TASK
FORCE ON BUDGETING AND ACCOUNTING

Mr. Chairman and members of the subcommittee, I greatly appreciate the privilege which you afforded me to appear before you on March 21. The following statement is submitted to direct attention to particular provisions of the bills under consideration.

S. 2369 and S. 2480 are identical bills, the substance of which is also included in S. 3199. Consequently my comments are directed to the latter bill.

Section 1 (a)

This section appears to be designed to carry out recommendation No. 20 of the task force (recommendation No. 22 of the Commission), which had the purpose of stimulating the preparation of informative reports on the financial results of the Government's activities and placing the responsibility for such reporting on the Director of the Budget. There is a great deal of preparatory work required within the several executive departments and establishments before the Director of the Budget can produce reports which show reliably the financial results of their activities. I believe it would be more realistic if the Congress recommended the attainment of the desired result at the earliest possible date and left the accomplishment of it to executive action.

Section 1 (b)

This section recommends certain amendments to section 216 of the Budget and Accounting Act, 1921.

The proposed amendments section 216 (a), (c), and (d) would in my opinion give a necessary impetus to the use of cost-based budgets for management purposes and in making fund allocations within departments and agencies.

Should S. 3199 be amended to include a provision that the annual budget be expressed in terms of annual accrued expenditures, as Senator Payne has indicated it might, the enactment of sections 216 (a), (c), and (d) is absolutely essential. It is necessary to have requisite cost information in order to develop, intelligently, a budget in terms of annual accrued expenditures.

I suggest that paragraph (d) of section 216 end after the second comma, which follows the word "accomplishments." In my opinion the reporting of performance by organizational units when such units do not coincide with performance budget classifications would be most helpful to the Congress, but there is so much preparatory work to be done in this area that I would hesitate to recommend that there be a legislative requirement that it be done forthwith. I believe the Congress can obtain the same result through action of the Executive.

Section 218

Section 218 appears to go further than is either desirable or necessary in directing the performance of the Director of the Budget in the field of personnel utilization. I believe the Director of the Budget should be held responsible for the intelligent selection and utilization of his staff. The limitations on the number of persons assignable to a particular activity and the length of service in one activity are undesirable. For example, the Department of Defense and its subdivisions could not be reviewed adequately with such limitations in effect. It would require at least 2 years for a newcomer to get his bearings in the Department of Defense if indeed it could be done in such a limited period. Consequently, I would suggest that the objectives sought by section 218 be accomplished by executive action, the Congress emphasizing its concern that properly qualified personnel be employed and that reasonable rotation of duty was desirable in order that representatives of the Bureau of the Budget not become captives of the organizations for which they have review responsibility.

Section 120

I agree with the proposal that there be established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting. However, I would provide that such individual be appointed by the Director of the Budget. The function to be performed is a responsibility of the Director of Budget and were S. 3199 enacted as proposed the position suggested would be the only one in his organization not under his control.

The other provisions in S. 3199 appear to be both necessary and desirable.

I urge strongly that the bill be amended to require that the appropriations by the Congress be in terms of annual accrued expenditures. The transition to that form from the present method of appropriating in terms of obligational authority should be a matter of execution by the Director of the Budget who should be directed to make such transition at the earliest possible date. It might even be that the transition could be a gradual process to be effected as soon as a particular agency's records and controls will permit.

In my remarks I have already indicated my conception of the annual expenditure budget. The annual expenditure budget was dealt with in the report of the task force, pages 37 to 40, inclusive. In my opinion, an annual expenditure budget is necessary to the effective control over Government expenditures. In this opinion the task force was not alone. The Cooper committee, which advised the Secretary of Defense on fiscal organization and procedures in the Department of Defense, suggested that consideration be given to this form of budget. In addition, a group of professional accountants who studied the matter at the request of the Bureau of the Budget made such a proposal.

As I testified before you, I believe one of the greatest present needs in the Federal Government is centralized direction and coordination of the Government's budgetary and accounting activities as a whole. The proposed legislation is, in my opinion, admirably designed to achieve that end. By centralizing responsibility for budgeting and accounting in the executive branch, the task of the Comptroller General, as the agent of the Congress, should be made easier.

The Comptroller General has been a constructive influence in accounting reform in the Federal Government. It is hoped that with the aid of the proposed legislation, the executive branch would assume and discharge its responsibility with equally constructive results.

SUMMARY OF SUGGESTED CHANGES

Section 1 (a)

That this be accomplished by executive action.

Section 1 (b)

That section 216 (d) end after the second comma which follows the word "accomplishments."

Section 218

That this section be eliminated and there be substituted therefore a requirement that at the earliest possible date the appropriations by the Congress be in terms of annual accrued expenditures, the accomplishment of this to be the responsibility of the Director of the Budget.

Section 120

That this section be amended to provide that such individual be appointed by the Director of the Budget.

Senator KENNEDY. Perhaps you could stay and we will have the Department of Defense up now and they might comment on some of these points.

BOSTON, MASS., April 7, 1956.

HON. JOHN F. KENNEDY,

Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: I have been away from my office almost constantly since I appeared before you in Washington and, in consequence, this is the first opportunity I have had to submit comments on the testimony of Mr. W. J. McNeil, Assistant Secretary of the Department of Defense.

I have read Mr. McNeil's testimony and it appears to me that Mr. McNeil is in general agreement with the provisions of S. 3199 and the possible amendment which would place the annual budget on an accrued expenditure basis. However, I get the impression that he has some misgivings concerning the practical application of the proposed legislation. Mr. McNeil has indicated there was a lack of understanding on the part of those who had recommended changes in that the particular problems of the Federal Government are not appreciated (pp. 226, 230, 234, and 236). It appears from Mr. McNeil's testimony that his paramount concern is accounting for obligational authority and making sure that no funds are spent except under authority of the Congress. In this view there is no disagreement. However, the recommendations of the Hoover Commission are designed to direct attention primarily to the development of financial facts as a tool of management. The accounting for appropriated funds can be greatly simplified once an adequate accounting system from which reliable operating costs can be derived is in existence. The allotment system which existed when the Hoover Commission task force made its review comprised over 1 million separate allotments within the Defense Department. These allotments were used as a means of control over appropriated funds. The substitution of a sound accounting system for an overdetailed system of allotments is the essence of the accounting recommendations as they pertain to the Defense Department.

Mr. McNeil talks about there being "some misunderstanding on the part of some accountants outside the Federal Government of the special accounting needs of the Government and some impatience with the maintenance of the obligation and expenditure bases of accounting" (foot of pp. 292 and 293). I trust that this reference is not directed at the budget and accounting task force of the Hoover Commission which would have an intimate knowledge of the accounting needs of the Government and was impatient with the emphasis which was placed upon the maintenance of the obligation and expenditure bases to the exclusion of the usual accounting for management purposes.

Again, Mr. McNeil says on pages 296 and 297, "I think we have got to get this accounting geared in such a way as to encourage or force management

decisions. And there is too much of a tendency sometimes to develop accounting for accounting's sake and see that the two columns balance. * * *

I am not conscious that any of those who have reviewed the Defense Department's accounting situation, whether it be the Hoover task force or the Cooper commission, have shown any tendency to develop accounting for accounting's sake. I am somewhat confused by Mr. McNeil's concept of accounting. On page 297 he says, speaking of the Comptroller General, that the emphasis of the Comptroller General's Office must be and properly should be on accounting and then continues to say, "But I think the emphasis has to be on getting figures that help senior commanders, secretaries, and whatnot, to be better able to run the show." If an accounting system, which is nothing more than a system under which financial figures are developed, does not develop figures which help the responsible individuals to operate, it is inadequate. I cannot understand the difference between accounting and "getting figures that help senior commanders, secretaries, and whatnot, to be better able to run the show."

At present, the figures upon which action should be based are not developed as they are in industry, under a system designed to develop financial facts for management, which development is synonymous with accounting. It appears to me that Mr. McNeil is facing two ways. He emphasizes the necessity of accounting for obligations and then, on page 248, says, "Now, under that system, in the past I think the Government has devoted too much attention to the obligation side of the picture and not enough to the cost. There is no question of that. But at the present time, there is a great deal of sentiment to think only of costs and never of the obligation side. And I think that would also be dangerous both for the Congress and for the department." The Hoover Commission task force was not among those who contributed to the unidentified sentiment of thinking only of cost and never of the obligation side. As a matter of fact, the Hoover Commission Recommendation No. 13, which recommended the simplification of the allotment system, carries with it the implication that an allotment system to control appropriations is required and should be continued. However, our criticism is not directed at an allotment system, but at the present allotment system in the Department of Defense. The Acting Comptroller General, in a letter dated July 9, 1954, stated to the chairman of the Committee of Appropriations, House of Representatives, as follows:

"It should be mentioned * * * that it becomes increasingly more obvious that the excessive use of detailed administrative allotments as the basis for administering programs under appropriated funds is a significant factor in the confused and unsatisfactory situation with respect to financial control in the Department of Defense. The extent of the problem which the Department generates for itself is illustrated by the fact that on a recent field inspection of one installation it was noted that over 10,000 individual allotments or administrative subdivisions thereof had been established. Each individual allotment or administrative subdivision acquires legal status insofar as violation of section 3679 of the Revised Statutes (the Anti-Deficiency Act) is concerned."

The so-called clarifying amendment which Mr. McNeil offers suggested that the last sentence under section 216A be changed to add "considering the lead time which must be allowed in incurring obligations in advance of incurring costs." I do not believe this addition is either necessary or desirable. I believe it is undesirable in the legislation to get too far into the mechanics implementation. A cost-based budget in terms of expenditures must, of course, take into account the lead time which must be allowed in incurring obligations in advance of incurring costs. I am fearful that even the reference in the bill to obligations will further accent and encourage emphasis on the obligational concept which should be replaced with a cost concept. The control of obligations should be secondary to management control which should be concerned with costs.

Mr. McNeil says on page 295, "While we agree that the use of the accrual basis of accounting is desirable to the extent of providing the same basis of accounting as required for budgeting on a cost basis, we believe it is important that there be no indication in the bill of either implying possible elimination of the obligation and expenditure basis of accounting for funds or any possible requirement to duplicate such accounting through the use of another system, even with the understanding that there be reconciliations between the two systems. The accrual basis of accounting can be integrated within the basis of fund accounting without the use of any separate system of accounts, nor requirement for a reconciliation between separate cost and obligation accounts."

Such integration is often facilitated by the use of revolving funds, as in the Department of Defense, financing inventories of consumable material and production of goods and services in industrial and commercial type activities, for sale to activities financed by appropriated funds." Mr. McNeil in this statement indicates that the obligation and expenditure basis of accounting represents an accounting system and expresses fears of possible requirement to duplicate such accounting through the use of another system. Certainly the present obligational system is not such an accounting system as should be used for management purposes. Mr. McNeil's statement would appear to indicate that he looks upon the obligational accounting of the Defense Department as an accounting system. It is not a question of the elimination of the obligation and expenditure basis of accounting for funds. The real question is simplification of that system with the drastic reduction in the over 1 million allotments and the substitution therefor of an accounting system from which understandable financial information can be obtained for management.

Mr. McNeil has further pointed out the responsibility for accounting principles and standards in the executive branch should lie in the Director of the Budget rather than the Comptroller General. The task force considered this matter very carefully and it was our conclusion that although in theory and in industry accounting responsibility would lie entirely with the executive, in the case of the Federal Government the responsibility for operations was not and probably never can be, clear cut. The Congress has some degree of responsibility even though the prime responsibility for operations lie with the executive. It appeared to us that Comptroller General, as an arm of the Congress, had used his authority for setting principles and standards with great discretion. These principles and standards have been set on a broad and flexible basis and present no obstacle to effective operation in the executive department. We do not believe that the proposed Assistant Director of Accounting in the Bureau of the Budget would be in any way hampered by a conflict in concept of standards and principles. If that day should come, the Congress would then be compelled to resolve any differences, but to anticipate them now will, I believe, only result in debate and conflict over a purely theoretical question. There is nothing in the pronouncements of the Comptroller General to date which would do other than strengthen the hands of those in the executive branch who have a desire to effect management improvements. I do not agree with Mr. McNeil when he says, on page 297, "that the emphasis" of the Comptroller General, "must be and properly should be, on accounting." Accounting is but one tool used in performance by the agencies and the Comptroller General's attention must be directed to agency performance, including an appraisal of the adequacy of its accounting mechanism and the reliability of its financial representations.

One of our observations in connection with the Defense Department was that there was a great underestimation of the necessity for and uses of an up-to-date accounting organization. Accounting and budgeting are so closely related that it is impossible to deal with one without considering the other. Sound budgeting requires a knowledge of financial facts developed through an accounting system. In our task force report we said:

At the Department of Defense level the necessity for accounting strength in the comptrollership organization does not appear to have been appreciated fully despite heavy accounting responsibility which has no counterpart in industry. For example, the accounting function is staffed with but one super grade civilian employee, a GS-16 (base pay \$12,000 per annum) whereas the Comptrollers' budget staff includes 7 positions in the super grade of which 1 is a GS-18 (base pay \$14,800 per annum).

I think it will be generally agreed that sound budget preparation requires as its foundation financial facts, particularly costs, developed through an adequate accounting system.

On pages 300 and 301 of his testimony, Mr. McNeil suggests a restatement of the proposed section 113C. I do not believe a restatement along the lines indicated is useful. There is nothing in the proposed restatement that cannot be accomplished under the legislation as proposed. I think the portion beginning with the last sentence on page 300, which says, "In addition, the accounting system required shall include adequate monetary property accounting records, integrated with the appropriated fund accounts. Wherever desirable to facilitate this integration, the use of revolving funds shall be encouraged to finance procurement and inventories of consumable material and production of goods and

service for sale on a reimbursable basis to consuming activities financed by appropriated funds," is particularly undesirable because it attempts to prescribe the method of keeping the records and even goes so far as to require that property accounting records shall be integrated with the appropriated fund accounts—whatever that may mean. The concluding sentence which says that the use of revolving funds should be encouraged to finance procurement of inventories, etc., is again a matter of detail which should be left flexible. It is not primarily an accounting matter. There are at present those in the Defense Department who are zealots in the application of revolving funds and oppose any accounting improvement which does not envision the use of revolving funds. This situation was recognized by the Budget and Accounting Task Force which took the position that revolving funds in certain instances were very useful, but should not be looked upon as a panacea for curing the accounting ills of the Department.

In stating its position on the Commission's report on Budgeting and Accounting, the Defense Department with respect to recommendation No. 15 has apparently resented an implication that there may be disadvantages in the use of revolving funds. It was the considered judgment of the task force that under certain circumstances the use of revolving funds minimized congressional control of agency operations and that their widespread use could result in too many pockets of funds which become cumbersome from the standpoint of efficient administration. The Defense Department apparently does not concur in this view. It has taken the position that the Commission's report on Business Organization of the Department of Defense differs from that of the Budget and Accounting Task Force. This is not so. I was Chairman of the Budget and Accounting Task Force and likewise was a member of the separate task force headed by Mr. Charles R. Hook, Sr., which studied the business organization of the Department of Defense and in the latter capacity it was my particular responsibility to deal with financial controls. You will notice that the report of the Business Organization of the Department of Defense dealt, on page 78, with the matter of revolving funds and recommended their continued and extended use where they are suitable. The latter limitation is consistent with the Budget and Accounting Task Force position that revolving funds should be employed only in situations where they provide greater economy and efficiency than do direct appropriations. The importance of the matter of whether or not revolving funds are utilized in the Department of Defense has, in my opinion, been overemphasized. The first need is a sound accounting system and the matter of funding appropriations is a collateral matter. The Committee on Business Organization of the Department of Defense said in speaking of working capital funds on page 78 of its report "revolving funds buttressed by accounting systems which disclose full costs of operations, contribute to improved management control." Consequently, in recommendation 17 of the Commission, the use of working capital funds was recommended wherever they would add to efficient management.

I have dwelt on this matter of working capital funds at some length because there has developed an ideological struggle for and against them. I believe this is unfortunate, I do not believe one can take a flat position for them under all circumstances or against their use under any circumstances and to place their use as a prerequisite to accounting improvement will impede progress.

The position that the Government cannot adopt businesslike practices because its problems are different was anticipated at the time of our report. In my opinion, the differences are attributable largely to a willingness in Government to go along without change. The same argument is used in business when changes are suggested. A frequent defense is that the particular business under consideration is unique and, consequently, business practices of demonstrated merit are of questionable utility.

A good example of what can be done in the development of meaningful financial reports as an aid to management is found in the Atomic Energy Commission and I believe the committee would be interested to review the most recent financial report of the operations of the Commission.

Very truly yours,

J. HAROLD STEWART.

STATEMENT OF MAURICE H. LANMAN, JR., ASSISTANT GENERAL COUNSEL (FISCAL MATTERS); ACCOMPANIED BY HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE

Senator KENNEDY. We have just received the statement of the Department of Defense on S. 3199. It has just been handed to me. None of us had had an opportunity to read it. Would you give me some idea—

Mr. LANMAN. Senator, as explained yesterday, the breadth and scope of the bill and the short time involved prevented us from giving you the type of analysis that you asked for yesterday. We have done our best today to prepare a statement which, in the main, discusses the major issues raised in this bill.

We have also brought with us, for purposes of inserting in the record, our detailed comments on Mr. Stewart's report,* which are the official positions of the Department of Defense with respect to many of the items covered by this bill, and intend to put that in the record.

(Comments of the Department of Defense on the task force report referred to were not entered in the record on this date. See p. 215.)

Mr. LANMAN. We must say, however, that we have had no advice from the Bureau of the Budget or the President, with respect to approval of the comments which we have made on Mr. Stewart's report.

Senator KENNEDY. When do you think you could get that?

Mr. LANMAN. I don't know, sir. We have had no opportunity actually to submit other than our report on the Hoover Commission and to ask for approval.

Senator KENNEDY. I am not taking exception to you personally as I understand you are overloaded with work anyway, but this Hoover Commission report has been before us for about 10 or 11 months. I think it would be helpful to get the Bureau of the Budget and the Department of Defense and all other interested parties coordinated on a viewpoint which you could give us. We have some responsibilities. We do not want to act without making sure that we have everybody's viewpoint.

Mr. LANMAN. Mr. Chairman, our comments were delivered to the Bureau of the Budget in October 1955.

Senator KENNEDY. Have you heard from them on these comments?

Mr. LANMAN. We have not had any official advices, sir; and on this particular legislation, we have not submitted anything to them, since we have been attempting to prepare our position for the purpose of submitting it to them.

Senator KENNEDY. Is that customary—the statement you sent in in October—to have not received any answer?

Mr. LANMAN. Well, sir, as you pointed out, the Hoover Commission report was a very broad study and covered many complex subjects and our comments on them are substantial and complex.

Senator KENNEDY. Did you ask for or expect an answer back, or did you just send it in to them and then expect that they would get in touch with us?

Mr. LANMAN. I am not thoroughly familiar with the procedure under which the Hoover Commission's recommendations are being

*Second Hoover Commission's Task Force Report on Budget and Accounting.

handled within the executive branch. I do know that we were asked for our comments and filed them and that we have permission to discuss them so long as we make it clear that they have not been approved by the executive branch.

Senator KENNEDY. Well, we can talk this over when we get the representative of the Bureau of the Budget back up again. Will you go ahead, please.

Senator SYMINGTON. Mr. Chairman, may I make a request? I have to be at the opening of the morning session if I can, or very shortly thereafter, and this statement will take some 30 minutes to read—and it might take longer than that. Would it be in order if I asked a couple of questions, please, on Mr. Stewart's report?

Senator KENNEDY. I think that will be helpful. After looking this over very completely, we might meet again on Monday and call you back to go over it in detail. We only have a very few minutes left. Perhaps the best procedure would be for you to go ahead, Senator Symington, and then have Senator Payne follow.

Senator SYMINGTON. Senator, would you yield?

Senator PAYNE. Yes.

Senator SYMINGTON. Would you give me your name again, sir?

Mr. BORDNER. H. W. Bordner.

Senator SYMINGTON. How do you spell it?

Mr. BORDNER. B-o-r-d-n-e-r.

Senator SYMINGTON. You are what?

Mr. BORDNER. Deputy Comptroller for Accounting Policy.

Senator SYMINGTON. Accounting Policy?

Mr. BORDNER. Yes.

Senator SYMINGTON. And you work for Mr. McNeil?

Mr. BORDNER. Yes, sir.

Senator SYMINGTON. Have you anybody in your department named Lehrer?

Mr. BORDNER. Max Lehrer?

Senator SYMINGTON. How do you spell that?

Mr. BORDNER. L-e-h-r-e-r.

Senator SYMINGTON. What is his position?

Mr. BORDNER. He is not in my division.

Senator SYMINGTON. What is his title?

Mr. BORDNER. I am not certain—

Senator SYMINGTON. Will you supply it for the record?

Mr. BORDNER. Yes, we can supply it. (Title of Mr. Max Lehrer as supplied by Mr. Bordner: Director, Economic and International Security Estimates Division.)

Senator SYMINGTON. Let me ask this question. You heard Mr. Stewart's testimony with respect to accrued expenditures?

Mr. BORDNER. I heard part. We came in during his testimony.

Senator SYMINGTON. Well, as I understood it, the idea is that you only appropriate the money that you need to pay for what you get for the year in question and that you do not ask for the money for additional years. What do you think of that concept of a budget?

Mr. BORDNER. You are talking about a new concept of a basis of appropriations, an obligational authority which is not embodied in this bill.

Senator SYMINGTON. I am talking about his idea that the Department only ask for the money that it would pay out in the year in question for what it receives or what is in process of shipment.

Mr. BORDNER. We think that the idea has merit, if you accompany the idea of appropriations for accrued expenditures with the idea of obligational authority in terms of contract authority.

Senator SYMINGTON. What do you mean by what you just said?

Mr. BORDNER. Well, in other words, that we buy so much material and we construct public works with a long lead time that we need financial authority from Congress as a basis to obligate. We couldn't very well control our operations administratively, looking in advance to the future, without it. Neither could the Congress control it. So, you would have to have some supplemental advice, such as contract authority, to cover the financial——

Senator SYMINGTON. Mr. Stewart said he would agree to contractual authority as part of his plan.

Mr. BORDNER. Yes.

Senator SYMINGTON. But, that he would only recommend that money actually be appropriated to take care of expenditures of the fiscal year in question.

Mr. BORDNER. Yes.

Senator SYMINGTON. Now, that is one and two. Do you have the contractual authority?

Mr. BORDNER. That is right.

Senator SYMINGTON. But you only ask for and receive the money that you feel you would pay out for merchandise received in the year in question. What do you think of that plan? Would you be for it?

Mr. BORDNER. The idea has merit.

Senator SYMINGTON. Would you be for it?

Mr. BORDNER. Yes, if it is carried out right.

Senator SYMINGTON. How do you mean if it is carried out right?

Mr. BORDNER. If it is carried out with adequate planning and preparation for it, so that we do not have a period of chaos in getting started.

Senator SYMINGTON. How are you going to have any chaos if you have a good plan?

Mr. BORDNER. No plan is any good unless it is carried out right. The administrative problems of carrying it out internally are so great that you need a certain period of preparation in order to shift over. That is all I meant.

Senator SYMINGTON. Mr. Bordner, I am only asking for information and I want to get your opinion and I respect your opinion. You say that the idea has merit. Then I asked if you are for it and you say, "Yes, provided it is handled properly." Do you think it could be handled properly?

Mr. BORDNER. Yes.

Senator SYMINGTON. Would you recommend it as a procedure in the Department of Defense—would you recommend it to the Appropriation Committees?

Mr. BORDNER. We are willing to recommend it and have so indicated in this statement of the Department of Defense's views, over Mr. Wilson's signature addressed to the President.

Senator SYMINGTON. Would you like to recommend it?

Mr. BORDNER. We don't think it is necessary.

Senator SYMINGTON. Why would you recommend it at all if you do not think it is necessary?

Mr. BORDNER. We think it has certain merit, not as much as has been represented. We believe that it would have merit from the standpoint of making clearer to the public, to everybody concerned, the nature of the carryover of funds.

Senator SYMINGTON. Do you think it is a better system?

Mr. BORDNER. It would cut down the carryover of funds, and the appropriations would be more in line with the expenditures from year to year, which are actually of primary attention in the balancing of the budget, year by year, anyhow.

Senator SYMINGTON. Do you think it would be a better system than the system you have or the system you have is a better system than the system recommended by Mr. Stewart?

Mr. BORDNER. We can do the same thing within the system that we have now, as far as cost control and control over accrued expenditures.

Senator SYMINGTON. Then, what you are saying—

Mr. BORDNER. We do not believe that as far as a margin of superiority is concerned, it is as great as has been represented, but there is some superiority to it. In fact, I would like to make the statement that Mr. McNeil prepared a memorandum on this subject for Senator Byrd, as far back as January 1953, and made the first proposal.

Senator KENNEDY. Do you have a copy of that memorandum?

Mr. BORDNER. We will put it in the record.

(The memorandum to Senator Byrd follows:)

INCREASING CONGRESSIONAL CONTROL OVER EXPENDITURES BY ADOPTION OF AN EXPENDITURE BASIS FOR APPROPRIATIONS

Many have expressed concern in recent years over possible weakness of congressional control over expenditures under the appropriation process. In one effort to strengthen its control over expenditures, Congress in section 638 of the Legislative Reorganization Act of 1946, set the annual task for itself of balancing the budget of receipts and expenditures, or of authorizing in advance a specific increase in the Federal debt to finance the indicated deficit. This is not now being done, although the importance of the objective is generally recognized.

Because appropriations are made simultaneously in terms of both obligational and expenditure authority and because obligations (especially for construction and major defense procurement and production) are authorized by appropriations for as much as 2 or more years in advance of expenditures, there is often little relation between the amounts appropriated for any given year and the expenditures estimated for that year. To most people, this confuses the problem of balancing the budget of receipts and expenditures.

Many legislators, as well as businessmen and other interested groups, have been concerned in the last 2 years over the effect on current expenditures of prior years' appropriations. For example, for the fiscal year 1954, estimated defense expenditures are somewhat greater than appropriations requested for new obligational authority, and there is a large carryover of unexpended appropriations for which obligations have been incurred requiring future expenditures. There is a natural desire in Congress to review the current status of these unexpended balances, including unliquidated obligations, to see if it is possible to rescind any part thereof without impairing the effectiveness of planned programs. It is extremely difficult for the Congress to grapple with this problem in the absence of voluminous current data. These difficulties are inherent because of the fluid state of procurement actions from month to month, the relatively long periods of production and deliveries after contracts are placed, and the relatively long period required by the entire budget review process. Data on this subject would not only be expensive and difficult to prepare; it would become out of date almost as soon as prepared.

There is not a universal awareness that the budgeting and appropriation process is a continuing one, and that it is impossible to review programs from a financial standpoint on the basis of one fiscal year at a time. In this respect the problem is most acute in the area of construction, procurement, and production, where the lead time required between order and delivery is 2 or 3 years. A given annual budget should always require consideration of the impact on future years' expenditures; it generally should involve consideration of current production and receipts of goods procured under prior appropriations with relation to current and future program requirements. Current budgets, which are presented with emphasis on future obligational authority, do not now clearly exhibit expenditure forecasts. A more extended discussion of this subject is presented in appendix B.

Neither is it always appreciated that some lead time in program planning is required in order to efficiently change the levels or volume of complex programs, especially with respect to procurement, production, and construction.

In connection with appropriation acts for the fiscal year 1953, certain expenditure limitations were established; others were proposed but not established. These limitations might better have been in the form of appropriations from the standpoint of administrative economy and simplicity, although this would have required development of a new concept of the basis of budgeting for the Federal Government.

There is set forth herein a proposal for consideration of an expenditure basis for appropriations with separate obligational authorizations for long lead-time expenditures for procurement, production, and construction. Some of the problems are set forth—there may be others. This is a complex subject in terms of congressional control, budget preparation and justification, financial administration, and actual operations. Details have been omitted from this discussion in order not to obscure major features of such a plan. In considering any plan relative to congressional control over expenditures, it must be recognized there is no completely satisfactory answer to the question of tight congressional control on the one hand, and on the other hand, necessary agency operating, latitude to meet changing conditions during the ensuing budget period.

There are those who will say that the addition of the concept of expenditure appropriations will not provide any additional congressional control over spending—that Congress may and should carefully consider expenditures in advance when undertaking through appropriations to authorize both obligations and expenditures. There is considerable truth in that view. Yet the fact remains, under present methods, the translation and consideration of budgets in terms of estimated obligations, into expenditure estimates are not fully understood, except by a limited number of people; and in the confusion, inadequate attention appears to be given to expenditure effects by fiscal years. If there is any merit in the proposed change in the appropriation basis from the standpoint of substantially clarifying and improving budget estimates (including expenditures) and the process of their review and evaluation, the change should be considered.

Appropriations in terms of expenditures, rather than obligations, are not new. The British have long employed that basis, and in the process have not exercised formal legislative control over obligations. Long experience in the United States, however, is generally convincing as to the need here for formal control over all obligations having a major impact on future years' expenditures.

It would be a disservice to the Congress if greater emphasis on expenditure budgets, and the making of appropriations in terms of expenditure, were to result in inadequate attention to and concern for obligational control of construction, procurement, and production. Past experience with the use of separate contract authorizations, without simultaneous provision for funding the expenditures thereunder to be incurred in future years, indicates the danger of the Congress adopting a lax attitude in considering long-term obligational authority alone and putting aside concern over the future expenditures.

OUTLINE OF CONCEPT

1. Good budgeting and planning starts with the determination of clear objectives as to the programs to be pursued, including rough evaluation of their cost as well as need. These determinations should be projected as far in advance as feasible, covering more than the next fiscal year. Changes should be made from time to time as basic conditions change. For example, in the military departments these basic determinations involve strength and composition of forces together with possible deployment and utilization, degree of modernization of equipment, levels of mobilization reserves of materiel, etc.

2. Based upon these determinations, more detailed determinations of certain basic long-term needs to carry out the program are required. For example, in the Military Establishment, these include construction of public works, ship construction, aircraft procurement, etc.

3. Upon the basis of these plans, annual budgets should be prepared in two basic parts, namely:

(a) Estimates of obligational authorizations required for all construction and procurement or production of major items to be undertaken beginning during the year, whether or not completed during the year or having a lead time of more than 1 year. Possibly such estimates should also include research and development work, because most of it is also of a long-term character. This part of the budget should also embody data on obligational authority previously granted to the extent expenditures have not been made. (See exhibits 1 and 2, appendix A.)

(b) Estimates of expenditures, separately divided between (1) those related to the obligational authority for construction and procurement or production of major items (see exhibit 3); and (2) those concerned with administration, operation, and maintenance, which are essentially of a short-term character and controllable on an annual basis. (See exhibit 4.)

That part of the budget concerning construction, procurement, and production is analogous to a budget for capital expenditures, as the term is employed in business enterprises.

More information with respect to the possible form of presentation of these estimates is furnished in appendix A.

4. Obligational authorization for construction, procurement, and production of major items (and possibly research and development) should be separately provided for the required lead-time. This budget would be separately justified, administratively controlled, and accounted for based upon present concepts of control and accounting for obligational authority. The estimated and actual expenditures related to such authorizations, both with respect to past and future, would receive particular specific attention.

5. That portion of the expenditure budget relating to construction, procurement, and production (and possibly research and development), subject to separate obligational control as set forth in paragraph 4, would be estimated, justified, authorized, controlled, and accounted for in conjunction with the related obligational authority. Necessarily, such expenditures would be based upon amounts payable to contractors for materiel or work as delivered or completed, or upon advance and progress payments when required by contracts. Production in Government-operated plants would be financed under revolving funds pursuant to production orders in a manner similar to contracts with private manufacturers, in order to aid in achieving advantages of the most business-like methods of operation.

6. That portion of the expenditure budget relating to administration, operation, and maintenance would be estimated, appropriated, controlled, and accounted for generally in terms of accrued (applied) costs of services rendered and supplies consumed plus costs of increases in inventories of supplies (or minus costs of decreases in inventories). This basis would be equivalent on the whole to accrued or true expenditure; it would differ from the present basis of obligations incurred in the operating area only by the elimination of increases or decreases in supplies and services on order (see par. 7). However, in dividing such expenditure budgeting and accounting between applied costs and changes in inventory or stock levels, a new control point is added with respect to inventories, and it is made possible to more accurately estimate and to closely scrutinize budget estimates and actual performance in the administrative or operating area. Revolving stock funds would be used to finance common items of supplies chargeable when consumed to more than one appropriation.

7. It would be necessary for the Congress to provide each department or agency with authority to incur obligations for administration, operation, and maintenance as required to carry out the programs authorized for the ensuing budget year. While in the main, these required obligations would be the same as the budget estimates of expenditures, certain lead-time is required in placement of procurement contracts for operating and maintenance supplies and contracts for maintenance work for delivery or performance during a relatively short period after the end of the ensuing budget year. The budgets for expenditures for administration, operation, and maintenance, should be supplemented by estimates of requirements for such additional obligational authority which will result in expenditures in the fiscal year following the ensuing budget year.

8. The reporting of Government fiscal operations would be extended and made comprehensive to embrace all the operations of the departments and agencies of the Government. It would include the Treasury fiscal operations, but would not be confined thereto. In the process, expenditures would include not merely checks issued or paid, as the meaning of the term is now limited in the Treasury Daily Statement, but also liabilities for goods received and services rendered but not yet paid for, as reported by the departments and agencies. In addition, appropriation reimbursements would include not merely cash receipts, but amounts due and not yet collected, as reported by the departments and agencies. Moreover, the consolidated and agency financial statements would show the costs of inventories of stocks on hand of materials, supplies, and other goods acquired from appropriated funds for consumption or sale. These additional data are required in financial accounting in the departments and agencies for purposes of control; much of it is already available but is unused in overall Government reports. Indeed, it is important to recognize the impracticability of the agencies controlling their expenditures in terms of checks drawn on the Treasury, or checks paid by the Treasury. Moreover, it would be undesirable for the Congress to attempt to control expenditures in such terms rather than true expenditures; to do so would invite manipulation by the agencies to increase or decrease their apparent expenditures in any year merely by deferring payments of their bills from 1 year to another.

9. In order that Congress, especially through its committees may give more attention to long-term fiscal planning, Government budgets should include continuous, revised budget estimates for 2 years beyond the fiscal years for which appropriations are requested.

10. It would be desirable that all obligational authorizations and appropriations be of a continuing nature in order to simplify administration and accounting. In order to provide satisfactory congressional control such authorizations and appropriations would be accounted for as follows:

(a) Unexpended balances of appropriations for administration, operation, and maintenance would be determined by each agency at the end of each fiscal year, with inclusion of uncollected accounts receivable for reimbursements and deduction of accounts payable and other current liabilities for goods received and services rendered. Ninety days to six months might be allowed for this procedure. The amount of such unexpended balances would lapse, but the balances of the Treasury "cash" accounts, accounts receivable, and current liabilities for each appropriation account would be carried forward into the next year and combined with that year's related appropriation accounts. Each agency would make corrections in accounts receivable and current liabilities as they are settled, and determine thereby adjustments of the unexpended balances of the "lapsed" appropriations. Any accounts or claims not settled within a period of 2 years after the fiscal year of an appropriation would be canceled and made subject to settlement under the usual claims procedures. These procedures would avoid any carryover of funds for actual expenditure in a subsequent year—the same result as with annual appropriations.

(b) Unobligated balances of obligational authorizations and unliquidated obligations for goods on order would be carried in continuing accounts without lapsing, provided, however, that the annual additions to such obligational authorizations would be made only after an annual justification and evaluation by the Appropriations Committees of the then-current status of such authorizations. This review would be made simultaneously with, and as a part of, the review of the entire programs, including those proposed for the ensuing fiscal year for which new authorizations are requested and the balance of the current fiscal year. In this way, any indicated excesses would be rescinded, in effect, by deduction from the gross obligational authority requested, leaving the authorized additions for the ensuing fiscal year stated in a "net" amount.

(c) Similarly, unexpended balances and accounts payable under appropriations for expenditures for construction, procurement, and production, would be carried forward at the end of each fiscal year into the next year's account. Moreover, the annual review of the budgets for these expenditures would also include a review and evaluation of the unexpended balances of the current fiscal year in conjunction with the evaluation of projected estimates for the ensuing fiscal year in the light of actual and scheduled deliveries of major items or construction performance, with the end of making "net" appropriations for the ensuing fiscal year after deduction of any excessive balances of unexpended appropriations for the current year. In addition, each agency would be allowed only 2 years after completion (acceptance of delivery) of any contract to effect final settlement;

any unpaid balance on such contracts carried in the accounts of the agency would lapse at the end of each fiscal year, and the claims thereafter would be subject to settlement under the usual procedures.

(d) All unobligated, unexpended balances of appropriations "lapsed," as provided in (a) above, would merely be cancelled (figuratively described in the past as returned to the surplus fund of the Treasury). Any unpaid balances of accounts payable or similar claims, determined pursuant to (a) and (c) above would be transferred to the Treasury account for the settlement of certified claims.

11. Revolving funds, including funds of Government corporations, present a special problem in control. They would be much simpler to understand and control if their financial transactions were not consolidated with those under appropriated funds. Congress should expect to control these operations through expenditure appropriations for increases in required capital and reimbursements for losses, if and where authorized, recognizing that obligational authorizations and expenditure appropriations of the various "customer" agencies provide a control over the costs of goods or services provided through the operations of such funds. Gains, if any, should be required to be transferred to the Treasury as receipts. Consideration should be given to eliminating loans to Government corporations from the Treasury and providing the required capital only by appropriation. Excess capital as it is determined should be returned as Treasury receipts. An additional type of control (analogous to contract authorizations) in the form of limitations of loans committed and outstanding, or inventories on hand and on order, might be desirable, to the extent it can be established without destroying necessary administrative flexibility. However, on this basis, expenditure appropriations still would not cover the turnover in revolving funds of accounts receivable, loans, and inventories acquired for resale (rather than use); but there is no good reason why they should be; and to establish such control would be incompatible with the reason for the existence of revolving funds.

12. The question of classifications of accounts for appropriations and budget activities is very much at issue in consideration of any plan for improved congressional control. Furthermore, considerable improvements in classification are necessary to facilitate more intelligible presentation of budget estimates and financial reports in terms of the programs, functions, and activities of the several agencies. It is believed that a better classification of programs, functions, and activities, and the special emphasis proposed for construction, procurement, and production, would permit the reduction of the number of appropriations and the utilization of informal and flexible controls of expenditures between subclassifications by the Appropriations Committees and the Bureau of the Budget in the manner presently followed.

13. This plan recognizes that responsibility for exercising financial controls over obligations and expenditures, pursuant to congressional authority, rests in the respective departments and agencies, subject to the overriding supervision of the President of the United States with the assistance of the Director of the Bureau of the Budget. In this respect, it is already generally recognized that the Treasury is unable to, and does not in fact, control expenditures through its position as the banker for the departments and agencies.

14. From the standpoint of congressional control, the plan would not be complete without recognition of the requirement for audits by the General Accounting Office of the operations, accounts, reports, and methods of financial control of the departments and agencies. This type of auditing must be performed in the offices of the departments and agencies—old-fashioned methods of auditing accounts of disbursing officers are inadequate. The General Accounting Office has already adopted substantially such a view, and terms the new approach to auditing, "comprehensive audits." Neither would the plan be complete without providing for greater congressional attention, through its committees, to what is currently happening in the departments and agencies, especially as disclosed by their reports and the General Accounting Office. In this connection vastly improved reporting is a prerequisite.

CONGRESSIONAL ACTIONS

Congressional actions which would provide the basis of financial control would include the following:

1. The Appropriations Committees of the House and Senate would continue to review the budget estimates, submitted with all appropriation bills, in terms

of obligations as well as expenditures upon the basis above outlined. This is a basic feature of financial control of expenditures by the Congress. It is hoped, however, that improved budgets and reports, together with improved financial administration in the departments and agencies, might facilitate and shorten the review process.

2. Each annual, supplemental, or deficiency appropriation act would be divided into 2 parts, corresponding to the 2 parts of the budget previously described, as follows:

(a) Part I would consist of obligational authorizations in addition to those previously granted, for construction, major procurement, and production (and possibly research and development). It would authorize the incurring of all obligations of this character, both long term and short term, to carry out the programs approved for the specific department or agency. This part would not cover provision for financing the contracts. This part of the act might also be used to provide authority to incur obligations under the programs for administration, operation, and maintenance during the budget year (see par. 7, p. 4).

(b) Part II would provide appropriations in terms of expenditures, on the basis hereinbefore outlined, in two subdivisions, as follows: (1) Expenditures for the fiscal year under all long term contracts placed in previous years and all contracts placed during the same fiscal year, pursuant to obligational authorizations for construction, procurement and production (and possibly research and development) (see pt. I); and (2) expenditures for the fiscal year for administration, operation, and maintenance.

3. The Congress would continue to exercise additional expenditure control through such specific, continuing, basic laws as the Antideficiency Act.

4. The congressional Committees on Appropriations and Expenditures (Government operations) would continue to review the operations of the departments and agencies (see par 14.)

PROBLEMS

As will doubtless be appreciated, there are many complicated problems requiring investigation and resolution before deciding to embark on some such plan as outlined. This probably cannot be done in less time than a year, and it would take longer if there is not great pressure. Implementation of such a plan would take a longer period.

Some of the major problems involved in this plan are set forth below:

1. Difficulty of estimating expenditures for construction, procurement, and production. This has heretofore been considered the major stumbling block in establishing expenditure limitations or controls. It has been extremely difficult to estimate in advance with any degree of accuracy and in specific terms what contracts will be placed in any year. It is much more difficult to forecast expenditures by each budget activity—present estimates of total expenditures for any individual budget activity tend to be misstated. It is extremely difficult to predict specific delivery schedules of items which are subject to the performance of a myriad of contractors and to the consequences of contingencies such as the recent steel strike and to satisfactory chain performance by subcontractors, such as machine tool manufacturers. Not the least of the problems in long-term forecasting of deliveries are those resulting from the necessity of planning for procurement of items not yet developed or designed, and the production delays which follow the general policy of not freezing specifications long enough to get production volume. Moreover, many major producers require advance and progress payments related to their financial outlays under their contracts, rather than to deliveries—the relative extent of such payments is difficult to forecast. However, in this respect the Department of Defense has made great progress in improving projected detailed delivery schedules by major items as a basis for estimates of contract requirements. It would require study of the feasibility of the problem of adapting these data to forecasting expenditures by fiscal year before being sure of the absolute feasibility of the plan. It is, of course, impracticable to make these estimates for all items of material; only the major items can be considered individually—all others must be lumped, at least by categories.

2. The technical format of budget estimates and accounting reports, for presentation to the Congress for the purposes of justifying requests for obligational authority and expenditure appropriations, would require development. This also is required in order to permit intelligent appropriation action.

3. There would be a considerable change in administrative practices in budgetary control and accounting, as well as in preparing budget estimates.

Some of these changes would require time to consummate. It would be necessary to make these changes on a continuing and progressive basis. These matters involve Treasury accounting and reporting, as well as agency practices, such as appropriation and allotment accounting and reporting, financial accounting for inventories of materiel, and accounting for accounts payable for expenditures and accounts receivable for reimbursements. However, these improvements are all long overdue. In this connection, the greatest administrative problem would concern the control of spending under long-term contracts for construction, procurement, and production. Ill-timed or unduly complex changes in methods of financial control over procurement might disrupt procurement progress or result in higher prices to the Government.

4. A program of education would be required both in the executive and legislative branches of the Government if the system were to be intelligently used.

5. The precise language to be recommended for use in appropriation bills would require study, especially with reference to obligational authorizations and the appropriation classifications.

6. Extensive changes (or a blanket change) in a myriad of related general statutes would be required.

PROCEDURE

If such a proposal is considered worthy of further exploration, the Comptroller General and the Director of the Bureau of the Budget might be asked to explore it in collaboration with such congressional committees and major executive agencies, as may be deemed desirable, for the purpose of determining its feasibility and desirability, and recommending a further course of action. If found to be feasible and desirable, solution of the problems involved therein might be worked out by the same group.

APPENDIX A

There are attached hereto 4 exhibits which roughly illustrate 1 possible form of summarizing the presentation of budget data under the proposed plan for making appropriations on the basis of expenditures and separating obligational authorizations for construction, procurement, and production.

Exhibit 1 sets forth data with respect to the status of obligational authorizations for construction, procurement, and production carried over from the last complete fiscal year and authorized in the current fiscal year not yet expired, with estimates for additional authorizations required for the ensuing fiscal year and estimates of contracts and orders to be placed in the current and ensuing fiscal year. It is assumed that no authorizations will be requested for contracts or orders to be placed beyond the end of the ensuing fiscal year; such requests would be made in connection with the next year's budget. Further information relative to the basis of obligational authorizations and accounting therefor is contained in pages 3 to 6 of the outline of the proposed plan. In particular, see paragraphs 3 (a), 4, 5, and 10 (b).

Exhibit 2 sets forth related actual and estimated data on contract authorizations with respect to the status of unfilled contracts and orders placed for construction, procurement, and production. Exhibit 2 (and also exhibit 3) should be reviewed in conjunction with exhibit 1. Together they provide a complete budget for what might be termed "capital expenditures" in business enterprise.

Exhibit 3 sets forth related actual and estimated data for expenditures for construction, procurement, and production in relation to appropriations carried over from the next to the last complete fiscal year, appropriations in the current fiscal year not yet expired, and appropriations requested for the ensuing fiscal year.

Exhibit 4 sets forth actual and estimated data on appropriations and expenditures for administration, operation, and maintenance for the last complete fiscal year, the current fiscal year not yet expired, and the ensuing fiscal year. Further information is contained in pages 3 to 6 of the outline of the proposed plan. In particular, see paragraphs 6 and 7, page 4.

Exhibit 5 is a sample worksheet which might be used to provide supporting data for exhibits 1 to 3 inclusive, with reference to each of the major items to be procured involving a significant amount. A similar worksheet for construction projects could be readily devised.

Exhibit 6 shows the format of balance sheets setting forth the assets and liabilities of each appropriation account at the end of a fiscal year. Interim balance sheets during a fiscal year would be slightly more complex as required in order to provide certain necessary budget controls.

EXHIBIT 4
DEPARTMENT OR AGENCY
SUMMARY OF APPROPRIATION ACCOUNTS

Classification	Fiscal year 1952 (actual)					Fiscal year 1953 (estimated)					Fiscal year 1954 (estimated)		
	Class B—Administration, operations, and maintenance												
	Costs	Reimbursements	Net costs	Appropriation ¹	Amount lapsed	Costs	Reimbursements	Net costs	Appropriation ¹	Amount lapsed	Costs	Reimbursements	Net costs
Appropriation head—B1	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Budget activity—B1a	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Budget activity—B1b	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Budget subactivity—B1b (1)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Budget subactivity—B1b (2)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Increase in inventories of supplies	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Appropriation head—B2	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Etc	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

¹ Amounts shown opposite respective budget activity classifications represent portion of each total appropriation assigned thereto.

Appropriations for expenditures						
	Total amount	By fiscal years			Total	Deferred until 1955 and there- after
		1952 and prior, (actual)	Estimated			
			1953	1954		
Deliveries to be made:						
Fiscal year 1953						
Fiscal year 1954						
After fiscal year 1954						
Total						
Amounts included in prior years' appropriations						
Amount requested for fiscal year 1954 (including adjustments of prior years' estimates)						

EXHIBIT 6

DEPARTMENT OR AGENCY

BALANCE SHEETS OF APPROPRIATED FUNDS

FISCAL YEAR END

DESCRIPTION

Appropriations
(Use as many columns as
necessary, 1 for each)

Assets (excluding inventories):

Undistributed balance in Treasury-----

Accounts receivable for reimbursements:

Intradepartmental-----

Interdepartmental-----

Other-----

Total accounts receivable-----

Total assets-----

Liabilities:

Accounts payable and accrued expenditures:

Intradepartmental-----

Interdepartmental-----

Other-----

Total-----

Unexpended balance carried forward to next year (ap-
plicable only for construction, procurement, and produc-
tion)-----Unbilled balances of contracts and orders placed (including
those unfunded)-----NOTE.—Inventories of materials and supplies financed un-
der respective appropriations-----

APPENDIX B

IMPORTANCE OF PRODUCTION LEAD TIME IN BUDGET CONSIDERATIONS

Present budgets fail to indicate clearly the scope and financial activity of the budget programs carried on in a given fiscal year; moreover in their present form, they tend to obscure the true annual costs of program performance and the financial impact of budget programs upon the Federal budget. This is so largely because of the current practice of presenting budget programs on the basis of obligations, with the result that very little attention is given to program expenditures.

It needs to be recognized that annual budget programs—especially those of a long-term character such as major procurement production, and construction—cannot be appraised properly from a financial standpoint solely in terms of obligations. A good appraisal of these programs can be made only in terms of their expenditures, and adequate consideration of expenditures requires that these programs be viewed on the basis of 2 and 3 years at one time. This is necessary because appropriations generally are not expended until deliveries are received (except as contractors require progress and advance payments to finance production), and it takes as long as 3 years for many items to be delivered after they are ordered.

The long lead time inherent in the production of most types of military equipment is largely responsible for this situation. Lead time influences delivery schedules perhaps more than any other factor. It plays a dominant role in the programing of all military procurement determined to be required; and it is

the greatest single factor responsible for delaying the expenditure of appropriations.

Lead time, after contracts are placed, in the production of such complex items as planes, tanks, ships, and guns includes the time a contractor must devote to redesigning components for production, making drawings, designing tools, laying out production lines, setting up sources of supply, ordering and obtaining delivery of materials, components, and manufacturing tools and equipment, and even to hiring personnel. Sometimes it may include time required in original design of some components. It is a common practice to give only performance specifications of components and require the manufacturer to develop the item. Moreover, frequent changes in specifications of components during production are common. Lead time also includes the time required by the mills to roll, shape, or fabricate the metal ordered by the contractor and the time of subcontractors in producing and furnishing components or sub-assemblies. All of these steps are time consuming. A few can and are performed concurrently, but most of them occur in sequence.

Changes or disruptions in any link of this complicated chain of operations can result in interminable confusion and delayed deliveries. For continuing production there must be kept filled a pipeline of components, parts, and materials adequate to sustain the scheduled production of end products. For this reason, deliveries of long lead-time items must be carefully planned many months in advance. Contractors and subcontractors must make similar plans. The development of delivery schedules requires consideration of priorities, military production capacity of industry, estimates of contractors' engineering and production lead-time, as well as estimates of available materials, tools, plants, and manpower over a 2- or 3-year period. Despite the most carefully laid plans, such unforeseen things as labor strikes, work stoppages, shortages of critical materials, changes in production specifications, and even changes in military priorities cause frequent revisions in delivery schedules.

The lead-time required for most military items is longer today than ever before in the history of military procurement. The complexity of military equipment and the heavy procurement demands placed on a partially mobilized industrial base are largely responsible for this situation.

Today's equipment is far more complex than any heretofore and requires considerably longer engineering and production periods—for example, some modern fighter aircraft require 20 times more engineering time than their World War II counterparts. Moreover, this equipment is becoming increasingly more complex each day through the introduction of the latest technological improvements into production designs. The imposition of heavy military requirements on a partially mobilized industrial base—one continuing to produce large quantities of civilian goods—also has added heavily to the lead-time required. Again, under the policy of expanding the industrial base, with procurement being placed with several and more contractors, it is not always possible to obtain the short lead-time benefits characteristic of mass production.

Because this lead-time usually extends over a considerable period, most of the major items of military equipment must be ordered 2 or 3 fiscal years before they are scheduled for delivery. The prime contractors and their subcontractors must have firm contracts as a basis for making their commitments and undertaking production. Such firm contracts cannot be placed except as authorized by the Congress under the appropriation process. This lag time between orders and deliveries causes a similar lag in expenditures after obligations are incurred. Except as advance and progress payments are made to contractors to aid in their financing, it can be said that obligations represent contracts placed and expenditures represent deliveries received.

It is important to recognize that the lead-time involved in major procurement, production, and construction programs has the effect of deferring a considerable part of the expenditure impact of these programs to 2 and 3 subsequent years. It is important also to recognize that this deferment results in lengthening the budget cycle for these programs so that as many as 3 fiscal years overlap. Hence, the expenditure impact in a given year is not just the expenditures to be made under current budget programs, but rather the cumulative sum of all expenditures to be made in that year under the active budget programs of at least 3 fiscal years—those of the 2 preceding fiscal years and those of the current fiscal year.

From the standpoint of the Government's financial program (the balancing of the budget of receipts and expenditures) and congressional control of expendi-

tures, it is important for this 3-year period to be viewed as a single time span in considering annual budget programs. This is especially important because control of expenditures is exercised best through control of obligational authority (appropriations or contract authorizations).

Appraisal of these programs, once they are established, requires answers to such questions as:

(1) How much of the unexpended balances (unfilled contracts represented by equipment in various stages of engineering and production) of prior years' appropriations will be expended in the current year? How much in each subsequent year?

(2) How much will be expended in the current year under new obligational authority requested in the current budget? How much in each subsequent year?

(3) How much will be expended under future budget programs in the same future years as overlap those affected by (1) and (2) above?

The answers to these questions would require:

(1) Analysis of the status of all items on order to determine the quantity and unit cost of items to be delivered in the current year and each subsequent year.

(2) Determination of the impact of expenditures for these deliveries by fiscal years, considering advance and progress payments, where anticipated.

(3) Appraisal of available production capacity in light of (1), above, and other possible sources of supply, for the orders to be placed in the current year; and determination of the quantity and unit cost of the items to be delivered and year of delivery. (Expenditures for these deliveries to be made from appropriations requested in the current budget.)

(4) Estimates of additional future program requirements, after consideration of available production capacity and contractors' abilities to deliver the items required; and determination of the quantity and unit cost of the items to be delivered, including year of delivery. (Expenditures for these deliveries to be made from appropriations to be requested in future budgets.)

(5) Estimates of upward or downward adjustments in prices of contracts (both contracts already placed and those to be placed) by fiscal year of expenditure—these estimates should cover the same number of fiscal years as other estimates.

The sum of the expenditures estimated for each fiscal year, as developed from the above analyses represents the total estimated expenditure impact for each of those years. This appears to be more mathematical than actually is the case. These estimates are the results of a continuous cycle of planning, programing, scheduling, adjusting and balancing of mutually supporting requirements with the production capabilities of industry. Each program supports the others and a balance is maintained in the proportionate effort that each bears to the whole.

The effect of lead-time upon appropriation expenditures is illustrated in the attached chart.

Although the aircraft procurement program illustrated in the attached chart is a hypothetical one, it is fairly typical of the financial activity of long-term military procurement, production, and construction programs for which the bulk of military dollars are spent. The expenditure activity of this program exemplifies the impracticability of viewing annual programs, from a financial standpoint, on the basis of obligations and on the basis of 1 fiscal year at a time.

Effect of lead-time on appropriation expenditures, aircraft procurement program

[In millions of dollars]

Appropriations		Fiscal year in which appropriations are expended											
		1951		1952		1953		1954		1955		1956	
		Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance	Amount expended	Unexpended balance
Fiscal year of budget program and appropriation	Amount appropriated and obligated ¹												
1951	130	20	110	30	80								
1952	150			20	130	95	15	95					
1953	100				10	90		75					
1954	280							10	70	20	50	15	50
1955	70									5	65	5	55
1956	60												
1957													
1958													
Total	600	20	110	50	210	125	3 185	2 120	4 145	100	115	70	105
												60	45
													45

¹ To simplify presentation, all appropriations are shown, as having been obligated (i. e., orders and contracts placed) in the same fiscal year in which the appropriation is granted. In actual practice, minor amounts usually are obligated at the end of the fiscal year and in the case of continuing appropriations (appropriations available until expended) these unobligated balances are carried forward into the ensuing fiscal year.

² Although only \$80 million were appropriated in fiscal year 1954, \$120 million were expended. This is largely because the balance (\$95 million) of the aircraft ordered in 1952 was delivered and a portion (\$15 million) of the aircraft ordered in 1953 was also delivered in this year. The \$40 million expended under the 1954 appropriation represented, for the most part, advance and progress payments to contractors.

³ At the end of fiscal year 1953, \$185 million in appropriations were unexpended—\$95 million of the 1952 appropriation and \$90 million of the 1953 appropriation. This unexpended balance represented aircraft, in various stages of engineering and production, ordered under contracts placed in 1952 and 1953.

⁴ At the end of fiscal year 1954, an unexpended balance of \$145 million (\$75 million of the 1953 appropriation and \$70 million of the 1954 appropriation) was carried forward into subsequent years and expended in 1955 and 1956, the years in which the aircraft were delivered.

Senator SYMINGTON. Let me ask this question. I want to be sure I understand. You are willing to put this in but you think the present system you have does the job?

Mr. BORDNER. Yes.

Senator SYMINGTON. Is that true?

Mr. BORDNER. Yes.

Senator SYMINGTON. If you put this system in it would require a great deal of work, would it not, in changing the policies of the Department, and a great deal of man-hours?

Mr. BORDNER. Yes, but there are other changes that are being made now in the same direction.

Senator SYMINGTON. Let me ask the question and you answer it, because we do not have too much time.

Mr. BORDNER. Yes.

Senator SYMINGTON. Then if the present system works as well as the system proposed and the system proposed would require a great deal of money and time to put in, what you are really saying is that you would rather stay with the system you have now, would you not?

Mr. BORDNER. Well, if you would qualify the present system with improvements, such as we propose in this bill—

Senator SYMINGTON. You would like some improvements?

Mr. BORDNER. We need improvements within the present system.

Senator SYMINGTON. Now, let me go back to this question of contractual authority as against expenditures. We talk a lot about appropriations and about the ability to shorten lead time. Would one of the disadvantages of the system recommended by Mr. Stewart be that you could not reduce your appropriations on the basis of theoretical reductions in lead time?

Mr. BORDNER. I do not know what effect it would have on lead time. I do not think it has anything to do with it.

Senator SYMINGTON. If you have appropriations only for the money you are going to spend and you cut your budget in 1956 or any particular year by shortening the lead time, you could not do that as a method of balancing the budget, for example, if you did not have any lead time to shorten. Is that a fair statement?

Mr. BORDNER. No, I do not think it is.

Senator SYMINGTON. I want to know—I am asking for information.

Mr. BORDNER. I think it should be recognized we already budget on the basis of expenditures, although Congress does not control on the basis of expenditures and, as you know, the balancing of the Federal budget, or the determinations of the annual surplus or deficit, are made on the basis of expenditures.

Senator SYMINGTON. That is right.

Mr. BORDNER. And there is a great deal of informal internal control over the rate of expenditures which affects the scheduling of work under contracts and all that sort of thing, so that once the executive branch of the Government and the Secretary of Defense have made commitments as to what the level of expenditures is going to be for defense for a year in advance, everything has to be done that is necessary administratively to hold these expenditures within that line.

Senator SYMINGTON. Let me ask the question in a different way and then one more question and I am through. I am grateful for your kindness and consideration. In 1953, the budget was heavily cut in

the Department of Defense, some \$7 billion, including 5 billion out of the Air Force, as I remember, in about April or May of 1933, going into the 1954 fiscal setup.

Now, at that time, much of that cut was justified on the basis that we were reducing lead time, inasmuch as obligational authority beyond the year in question was considered part of your obligation. Now, that is again being done this year, as we understand it. You are reducing the lead time again and I thought both times we have used the expression, "one-shot lead time reduction."

My point is that you would eliminate that automatically would you not, if you followed Mr. Stewart's concept and said that you were going to have contractual authority but you would only actually ask the Congress for the money that you expected to spend in the year in question and at the last part you had to come in for supplemental, that would be an addendum to the plan. Does that make sense?

MR. BORDNER. Well, I do not think that I should attempt to answer the question for the Assistant Secretary of Defense Comptroller because the budget end of the business is not my side of it, and I am not familiar with the budget action in 1953.

Senator SYMINGTON. Do you think he is in position to answer?

MR. BORDNER. As far as the 1953 actions are concerned, I am not acquainted with that.

Senator SYMINGTON. Do you think that he would answer it for us?

MR. BORDNER. I assume so.

Senator SYMINGTON. Is it a matter of policy?

MR. BORDNER. I do not know.

Senator SYMINGTON. Would you ask him to read the record and furnish the chairman and the subcommittee an answer to the question?

MR. BORDNER. Yes.

(The information requested follows:)

ADJUSTMENTS TO DEPARTMENT OF DEFENSE BUDGET REQUESTS FOR FISCAL YEARS 1954 AND 1957

The initial fiscal year 1954 budget request for the Department of Defense submitted to the Congress in January 1953 called for total new obligational authority of \$41.3 billion—\$12.1 billion for the Army, \$11.4 billion for the Navy, \$16.8 billion for the Air Force and \$1 billion for interservice activities. In early May 1953, after 3 months of intensive review of these budget requests, revised estimates for fiscal year 1954 were submitted to the Congress. These called for total new obligational authority of \$36 billion—\$13.7 billion for the Army, \$9.7 billion for the Navy, \$11.7 billion for the Air Force, and \$1 billion for interservice activities. The Congress provided \$34.5 billion—\$13 billion for the Army, \$9.4 billion for the Navy, \$11.4 billion for the Air Force, and \$8 billion for interservice activities.

Reduction in procurement lead time was only one of the factors, although a very important factor, in revision of the fiscal year 1954 budget request. The basis of the revisions was outlined in Secretary Wilson's testimony in May 1953 before the House Appropriations Committee as follows:

"Our intensive study of the requirements of the Department of Defense, taking into account appropriations that had already been made, led us to the conclusion that significant reductions could be made in the fiscal year 1954 Defense budget by institution of more realistic requirements, better planning, and more efficient utilization of manpower and other resources. Our review quickly indicated that the provision of equipment, the construction of bases, and the training of personnel were out of phase in some respects. By careful balancing of equipment, facilities, and manpower, improved military strength could be achieved on a common front without spending quite so much money. Our review also made it perfectly clear that the military forces and stocks of mobilization reserves which previously had been held out as a goal could not be attained within the time

contemplated and within the concept of a reasonable balance between Federal expenditures and revenues."

Somewhat more detail on the budget adjustments were contained in the statement of the Assistant Secretary of Defense (Comptroller) before the same committee, as follows:

"In comparing the present request of \$36 billion with the \$41.3 billion request submitted in January two important differences must be noted:

"(1) The current request provides for equipping and maintaining an increased number of ROK divisions in fiscal year 1954.

"(2) The current request provides financing for continuation of combat consumption in Korea throughout all of fiscal year 1954. As a consequence, advance financing is provided for the estimated combat consumption of supplies and equipment during fiscal year 1954, with ammunition financed for an additional 9 months of lead time into fiscal year 1955—6 months at combat consumption rates and 3 months additional lead time phased down to sustaining rates. Funds are also provided in advance for combat-duty pay and other additional personnel and operating costs arising from combat operations.

"In contrast, the budget request submitted in January 1953 did not make full advance provision in all areas for additional operating costs that might result from continuation of combat operations in Korea during fiscal year 1954. In the specific case of ammunition, the January budget request covered combat consumption rates through December 31, 1953, and it was stated in the budget document:

"Additional funds may be required for fiscal year 1954 to cover the combat consumption and attrition of ammunition and military equipment, particularly if it appears that combat in Korea will continue beyond December 31, 1953."

"As was stated in earlier discussions with this committee, the inclusion of ammunition requirements at authorized combat rates to December 31, 1953, was predicated on the assumption that a restudy would be made in March of 1953. The current action of extending the financing period at authorized rates was the result of this restudy.

"If provision had been made in the January request for equipping and maintaining additional ROK divisions and for full advance financing of combat operations through fiscal year 1954, the January request would have had to be increased by approximately \$2 billion to a total in excess of \$43 billion. Consequently, on a comparable basis, there is a difference of approximately \$7 billion between the initial and revised budget requests."

"This reduction results from a number of factors. Certain adjustments have been made to reflect several months additional experience with reference to actual production rates and rates of obligation and expenditure. Other adjustments stem directly from the decision to reduce the numbers of military and civilian personnel in the Department of Defense. Other adjustments are the result of changes in interim force and readiness goals based upon elimination of the assumption for a specific date for D-Day readiness. The continuing examination of end item requirements, together with further evaluation of stock levels and quantities of materiel on order but not delivered resulted in numerous changes.

"Next, other adjustments were possible because of the size and character of the unexpended carryover funds amounting on June 30, 1953, to approximately \$63 billion, of which something in excess of \$6 billion will be available for obligation in the next fiscal year, part of which has already been placed in reserve for that purpose. Still further adjustments were made by the Secretary of Defense in anticipation of savings that we expected to be achieved during the coming fiscal year by the progressive elimination of waste, inefficiency, and imbalance and by reducing procurement of soft goods and miscellaneous supplies and equipment to the minimum essential levels."

With respect to the fiscal year 1957 budget, the reductions in the initial requests of the military departments resulting from careful consideration of a number of factors, including the further reduction of procurement lead times. These adjustments affected both the total new obligational authority required for fiscal year 1957 and the estimated expenditures during 1957. If we budgeted on an expenditure basis, it would be necessary to revise the amounts requested of the Congress to the extent that the program adjustments made during the review of the budget affected anticipated expenditures in the immediate budget year.

Senator SYMINGTON. Incidentally, I would like to ask one more question along these lines. Yesterday when we had a witness in here, and I think Mr. Lanman was here at that time, we talked about certain items where once you had agreement that the item was to be built, you did not have to come back for any further justification. Do you know about that in your position?

Mr. BORDNER. Yes, under the present method of making appropriations in terms of obligational authority.

Senator SYMINGTON. What items are involved?

Mr. BORDNER. You do not have to come back and rejustify for the purpose of expenditure.

Senator SYMINGTON. What items are involved where money carries over a 12-month period?

Mr. BORDNER. Well, the procurement and production of all types of major items of materiel.

Senator SYMINGTON. Like what?

Mr. BORDNER. Ships, aircraft, guns, tanks, and things of a military nature, machine tools, production equipment, and so forth, construction of public works, research and development programs.

Senator SYMINGTON. All of that you can program out beyond the 12-month period?

Mr. BORDNER. Yes.

Senator SYMINGTON. What do you do if the cost increases? Are there any items where you do not have to come back for a request for increased amounts of money to take care of increased costs or are all items in the military budget, items where you have to come back and request additional money in case you made a mistake in the original estimate of the cost of the items in questions?

Mr. BORDNER. Well, of course, our programs are very broad under our appropriations, and we do not have to work on the basis of item by item.

Senator SYMINGTON. Let's take a typical illustration.

Mr. BORDNER. You work on a basis of a broad program and you must have a continuing rejustification year after year, and if you need more money on account of mistakes in cost estimates, that gets picked up in your following year's appropriations.

Senator SYMINGTON. So long as we understand each other, but suppose you ordered 100 bombers for \$8 million apiece, and then after the order is in process, we find that those bombers are going to cost \$10 million apiece, do you have to come back to the Congress and ask the Congress to give you another \$200 million or can you go ahead with completion of the order and simply bill the Treasury for the additional money?

Mr. BORDNER. You cannot place a contract for a sum beyond the amount of the obligational authority that you have. You may re-adjust your program so that if you want to place the contract in full at the higher cost—

Senator SYMINGTON. I am not talking about that. I am talking about the fact if you make a mistake in estimated cost on the down side and you need more money to complete, say, 100 bombers, do you have to come back and request that money from the Congress or do you simply proceed without further request?

Mr. BORDNER. Mr. Lanman, do you want to say anything?

Mr. LANMAN. I was just saying, Senator, to the extent that you did not have the difference in your no-year appropriation, you would have to come back to the Congress and request additional money to cover that contract.

Senator SYMINGTON. Let me get this straight. If you have \$800 million appropriated for 100 bombers and you find out it is going to cost a billion, you cannot spend the additional 200 million without further approval authorization and appropriation approval of the Congress; is that correct?

Mr. LANMAN. The 800 million, Senator, would have been included in your total aircraft appropriation.

Senator SYMINGTON. When you justified before the Congress, you did not pool it in one sum, but you said, "We want \$800 million for these planes." I am not talking about an adjustment of the 5 percent or whatever the figure is. What do you do if you need 200 million more on those bombers because you made a mistake or because you had an engineering design changed or for any reason? Do you come back and get additional authorization from the committees in question of the Congress?

Mr. LANMAN. For the obligational authority necessary to change that contract upward, again providing that you are not doing any reprogramming in your no-year appropriation account. Now, the Appropriations Committee has concerned itself with reprogramming activities within our accounts and has instituted a reporting system whereby—I do not recall the exact figures—but when we reprogram—

Senator SYMINGTON. What does reprogramming have to do with \$200 million more that you want to build those 100 bombers which you told the Congress would cost 800 million?

Mr. LANMAN. Only this, when we told them "800 million for those bombers," we also told them, perhaps, 500 million for another aircraft and that may have turned out to be a lower cost and in order to make it—

Senator SYMINGTON. Or you may not want those, but what you are saying now is that you do not have to come back to Congress unless you do not have the money to pay the increase?

Mr. LANMAN. That is right.

Senator SYMINGTON. And if you need the money to pay the increase because all the other programs were accurately done, you would have to come back?

Mr. LANMAN. Have to come back and ask for an increase in the amount of the appropriation.

Senator SYMINGTON. That is with respect to the Air Force?

Mr. LANMAN. With respect to all of the services.

Senator SYMINGTON. Is that true if you are buying destroyers for the Navy and lay the hulls?

Mr. LANMAN. Yes, sir.

Senator SYMINGTON. And then you have to come back if the cost is more than you thought it was?

Mr. LANMAN. Only providing that within the appropriations, you do not have the money, or if you could not do the reprogramming from some other reduced program.

Senator SYMINGTON. When you make the reprogram, do you submit all the details of that to the committees in question?

Mr. LANMAN. When it is above a certain amount, sir, we report it and discuss it thoroughly.

Senator SYMINGTON. Do you reprogram before you make the change or do you ask the Congress permission to make the change?

Mr. LANMAN. I believe that the requirement, at the moment, sir, is a reporting requirement. I would be glad to supply for the record, the existing instructions which are in detail on this matter. (Department of Defense instruction follows:)

DEPARTMENT OF DEFENSE INSTRUCTION

Subject: Report on Reprograming of Appropriated Funds

I. PURPOSE

A. House Report 493, on the Department of Defense Appropriation Act of 1956, expressed concern over the numerous reprogramings of funds within Department of Defense appropriations. The Committee on Appropriations recognized that some of these reprogramings are relatively minor but others are substantial and far reaching in scope and effect. The committee report, while noting that some variations are inevitable, stated that it has never been nor is it the intention of the committee to permit the military departments to have unrestricted freedom in reprogramming or shifting funds from one category or purpose to another without prior notification or clearance of the committee. The report states that the current practice of the services in advising the committee of major reprogramming both by way of specific requests for clearance and notification for information purposes, depending on the nature of the change, must be continued. In addition, the committee requested that by January 15 of each year the Department submit to the committee a detailed tabulation of all reprogramming of funds effected between July 1 and December 31, and that a similar tabulation be submitted by July 31 for the remainder of the fiscal year.

B. It is the purpose of this instruction to provide for a uniform interpretation of the types of reprogramings which are of interest to the Congress and to prescribe a uniform procedure for reporting the data required in compliance with the intention of the committee as expressed in House Report 493.

II. SCOPE AND APPLICABILITY

A. The provisions of this instruction are applicable to all unexpired general (direct) appropriation accounts, except the following: (1) military construction appropriations, including "Military construction, foreign countries," and the military construction for Reserve forces accounts; (2) research and development appropriations, including the emergency fund, DOD; (3) the Department of Defense appropriations for family housing, access roads, loran stations, contingencies, and construction of ships, MSTs.

B. The level of classification below the appropriation level to be reported under the provisions of this instruction shall be the same as that in the printed budget document, which is generally at the budget activity or budget program level; provided, however, that items or projects of special interest to the committee should be reported below the level provided in the budget document.

III. DEFINITION OF MAJOR REPROGRAMING

Major reprogramings, as used herein and as believed to be responsive to the intention of the committee, are defined as any individual action or actions which fall within one or more of the following criteria:

(1) Individual actions or a total of actions during the fiscal year which represent increases or decreases of 5 percent or more of a budget activity or program whose total annual program is less than \$200 million;

(2) Individual actions or a total of actions during the fiscal year which represent increases or decreases of \$10 million or more of a budget activity or program whose total annual program is \$200 million or more;

(3) Individual actions which involve items in which the committee has shown a specific interest, without regard to the amount of funds involved, or for which the military departments consider it desirable to advise the committee.

IV. PROCEDURE FOR CLEARANCE OF MAJOR REPROGRAMMING

A. Individual actions which result in major reprogramming (as defined above) will be cleared with the Assistant Secretary of Defense (Comptroller) for conformance with current policies of the Secretary of Defense prior to effecting such major reprogramming. In the interest of uniformity of presentation, these major reprogramming actions should be submitted to the Office of the Assistant Secretary of Defense (Comptroller) in letter form, entitled "Request for Clearance of a Major Reprogramming Action," with appropriate dollar amounts shown in summary columnar form at the beginning of the letter as indicated below.

B. Where specific advance clearance of the committee is necessary or desirable prior to effecting reprogramming, the military services will obtain such advance clearance in the same manner as at present, after first having cleared the proposed action with the Assistant Secretary of Defense (Comptroller).

C. Format for "Request for clearance of a major reprogramming action":

Budget activity or program (1)	Initially programed amount (2)	Amount of program as proposed (3)	Amount of major re- programming (4)
(a) Title and number from which funds are to be transferred.....	-----	-----	-----
(b) Title and number to which funds are to be transferred.....	-----	-----	-----

Column 1: Budget activity or program.—Two line entries will be made in this column: (a) the title and number of the budget activity or program from which funds are being moved under the proposed reprogramming action, and (b) the title and number of the budget activity or program to which funds are being moved under the proposed reprogramming action.

Column 2: Initially programed amount.—Enter opposite each of the entries in column 1 the amount of the budget activity or program based on legislative history and appropriation amounts enacted.

Column 3: Amount of program as proposed.—Enter opposite each of the entries in column 1 the amount of the budget activity or program as proposed in this reprogramming action.

Column 4: Amount of major reprogramming.—Enter opposite each of the entries in column 1 the difference (plus or minus as appropriate) between the amount of the entry in column 2 and that in column 3.

The dollar summary data presented in accordance with the above should be accompanied by a narrative statement which will provide an adequate explanation of the circumstances and reasons in justification of the proposed reprogramming, together with supporting exhibits or material as considered necessary for review by the Assistant Secretary of Defense (Comptroller) and for presentation to the Congress. In the case of major reprogramming actions, as defined above, involving procurement and production programs, a list of the major end items constituting at least 75 percent of the total dollar amount involved should be presented as an attachment to the letter.

V. REPORTS REQUIRED

A. Distribution of appropriated funds by budget activity or program (format A)

1. An initial report will be prepared in accordance with format A of enclosure 1 and the instructions thereto and will be submitted within 15 days after Presidential approval of the annual appropriation act to show the distribution of the appropriated funds as enacted by Congress. (NOTE.—The report showing the distribution of fiscal year 1956 appropriated funds will be due 20 days after the date of this instruction and will reflect the status of programs as of December 31, 1955.)

2. A completely revised report will be prepared in accordance with format A of enclosure 1 and will be submitted within 15 days after Presidential approval of each supplemental appropriation act, if any, during the fiscal year.

3. A final report for the fiscal year reported on under the provisions of paragraph (1) above will be prepared in accordance with format A of enclosure 1 as of June 30 and will be submitted within 5 days after the submission of the year-end fiscal reports (standard form 133 and DD form 690).

B. Semiannual report of reprogramming of appropriated funds (format B)

A semiannual report showing reprogramming of appropriated funds will be prepared in accordance with format B of enclosure 1 and the instructions thereto. A report covering the period July 1–December 31 will be submitted by January 30, and a report covering the period January 1–June 30 will be submitted within 5 days after the submission of the year-end fiscal reports (standard form 133 and DD form 690). (NOTE.—Usually such year-end fiscal reports are submitted on a delayed schedule to permit final closing of the official accounts.)

Since the initial report for fiscal year 1956 will reflect status as of December 31, 1955, no reprogramming report need be submitted for the period July 1–December 31, 1955. However, if, in the opinion of the military department concerned, any of the currently programed amounts involve reprogramming actions taken during the past 6 months which should be brought to the attention of the Congress, these programs should be the subject of a separate memorandum accompanying the report prepared in accordance with format A of enclosure 1.

C. All reports are to be submitted in 25 copies to the Assistant Secretary of Defense (Comptroller).

VI. REPORT CONTROL SYMBOLS

A. Report control symbol DD Comp (A) 240 is assigned to the reporting requirements of paragraph V-A, above.

B. Report control symbol DD Comp (SA) 241 is assigned to the reporting requirements of paragraph V-B, above.

W. J. McNEIL,
Assistant Secretary of Defense (Comptroller).

FORMAT A

Distribution of appropriated funds by budget activity program

Department:		Appropriation:		Date:	Initial report Revised report Final report		Page — of — pages	
Budget activity/program		Unobligated balance brought forward, 1 July	Appropriations	Transfers—		Adjusted net program		
No.	Title			To be made	Actual	Reflecting transfers to be made	Actual	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Reserved for future requirements								
Planned unprogramed amounts								
Applied to prior year program								
Total								

FORMAT B

Semiannual report of reprogramming of appropriated funds

Department:		Appropriation:			Period: From 1 July through (date)		Page — of — pages	
Budget activity/program		Total annual program to date	Reimbursements from other accounts	Net program from appropriated funds (col. (3)–(4))	Adjusted net program	Total reprogramming during period (col. (5) + or – (6))	Major reprogramming reported to Congress to date	Net reprogramming (col. (7)–(8))
No.	Title							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Reserved for future requirements. Planned unprogramed amounts. Applied to prior year programs.							
	Total.....							

INSTRUCTIONS FOR THE PREPARATION OF REPORTS ON DISTRIBUTION OF APPROPRIATED FUNDS BY BUDGET ACTIVITY/PROGRAM AND SEMIANNUAL REPORT OF REPROGRAMING OF APPROPRIATED FUNDS

A. GENERAL

1. *Format A.—distribution of appropriated funds by budget activity/program.*—Format A should be followed in reporting the distribution of appropriated funds following presidential approval of the appropriation act. It is recommended that the initial and each revised (if any) report be prepared as a master copy suitable for reproduction in the quantities required, and that such master copy be retained so that it may be used in preparation of the final report, thereby eliminating the necessity of retyping previously reported data and restricting entries only to those required in columns (6) and (8).

2. *Format B.—semiannual report of reprogramming of appropriated funds.*—Format B should be followed in reporting the reprogramming actions effected during each of the semiannual periods.

3. *Modification of formats.*—Formats A and B may be varied as to paper size, margins, columnar widths, etc., to meet limitations of reproduction equipment, but the arrangement and sequence of the information reported must be exactly in accord with those formats.

4. *Number of copies.*—Twenty-five copies of the report should be submitted to the Assistant Secretary of Defense (Comptroller) who will provide, out of that number, the necessary copies for the Committee on Appropriations. Each report should be arranged in complete sets covering all of the appropriations being reported.

B. FORMAT A—DISTRIBUTION OF APPROPRIATED FUNDS BY BUDGET ACTIVITY/PROGRAM

1. *Heading.*—The name of the department preparing the report, the title of the appropriation as listed by the Treasury Department, the date on which the report is prepared, the nature of the report, and the page number of each sheet should be entered in the appropriate blocks at the head of the sheet.

2. *Budget activity/program (columns 1 and 2).*—List under these columns the number and title of each budget activity/program, or other item of special interest to the committee. The nomenclature and sequence should be the same as that normally employed by the military departments in the budget justification books before the Congress. In those instances where the budget justification books group together two or more budget activities/programs, as contained in the fiscal codes, subtotals may be used so as to permit ready comparison with the budget as presented to the congressional committees. A one-line entry, entitled “re-

served for future requirements," should be used in those no-year appropriations in which certain funds may be programed for use in subsequent fiscal years—e. g., first destination transportation or engineering changes. A one-line entry, entitled "planned unprogramed amounts" should be used in those cases where some of the funds within an appropriation will not be required to finance currently approved programs (e. g., savings in annual accounts), or where part of the funds are *planned* for reprograming against the succeeding years' programs (i. e., changes among program-years in no-year appropriations). A one-line entry, entitled "applied to prior year programs," should be used to show the amounts, if any, of current year appropriations (column 4) applied to prior year programs in order to complete those prior year programs. Where programs are known to have changed by the time the final appropriation act has been approved, resulting in savings or credits against succeeding years' programs, the use of this line entry will permit recognition of these changes without involving subsequent reporting of the changes as a reprograming action.

3. *Unobligated balance brought forward 1 July (column 3).*—This column will be used to enter opposite the entries in columns 1 and 2 the amount of the unobligated balance brought forward in no-year (or multiple-year) appropriations as is applicable to each budget activity/program or item of the program-year being reported. The total of this column will agree with the amount reported on line 1, standard form 133, and will represent the actual (rather than the estimated) amount of the unobligated balance. Where only a part of the unobligated balance is applicable to the current fiscal year program, only this portion will be distributed by budget activity/program, and the entries, "applicable to prior year programs," or "planned unprogramed amounts," as the case may be, will be used to cover the balance of the unobligated funds brought forward.

4. *Appropriations (column 4).*—This column will be used to enter opposite the entries in columns 1 and 2 the amount of the appropriations, as contained in the appropriation act. Any adjustments made by the Congress from the amounts shown in the President's budget will be accurately reflected in accordance with congressional intent; the amount and identification of the congressional actions will be based upon the reports of the committees on appropriations, the debate on the appropriation bill, and related legislative history. Where such legislative intent cannot be identified from available sources of information by specific items, the adjustments should be made in such a manner as to result in balanced programs for the appropriation as a whole, giving due consideration to the interrelationships among the programs under the adjusted amount appropriated. The total of this column will agree with line 2 (plus line 3, if any) of standard form 133.

5. *Transfers—to be made (col. 5).*—This column will be used only on the initial and revised reports during a given fiscal year—i. e., those prepared after Presidential approval of the annual and/or supplemental appropriation acts (see pars. V-A-1 and V-A-2). Enter in this column opposite the entries in columns 1 and 2 the amount of any anticipated transfers, including rescissions, which have been authorized by specific action of the Congress; such transfer amounts should be included within the total programed funds. In the case of general transfer authorization language in which the exact source of the transfer is not yet known, the amount of the unknown source of the transfers will be footnoted in the report. In the case of general transfer authorizations from any available balances, the transfers will be shown against the line, "Planned unprogramed amounts," rather than distributed by budget activity program or item. The total of this column will agree with lines 5 (a) and 5 (b) of standard form 133.

6. *Transfers—actual (col. 6).*—This column will be used only on the final report for a given fiscal year—i. e., the report prepared after the close of the fiscal year (see par. V-A-3, above) to report actual transfers in accordance with instructions in paragraph 5 immediately above.

7. *Adjusted net program—reflecting transfers to be made (col. 7).*—This column will be used only on the initial and revised reports during a given fiscal year—i. e., those prepared after Presidential approval of the annual and/or supplemental appropriation acts. Enter in this column opposite the entry in columns 1 and 2 the sum of the entries in columns 3, 4, and 5. It should be noted that the total of this column will not agree with line 6 of standard form 133 by the amount of the reimbursements, if any; these reimbursements are omitted from the report on reprograming on the assumption that the direct or appropriated funds are of primary interest to the congressional committees and

that reimbursable transactions to one account are generally included as part of the appropriated funds in other accounts.

8. *Adjusted net program—actual (col. 8).*—This column will be used only on the final report—i. e., the report prepared after the close of the fiscal year. Enter in this column opposite the entries in columns 1 and 2 the sum of the entries in columns 3, 4, and 6.

C. FORMAT B—SEMIANNUAL REPORT OF REPROGRAMING OF APPROPRIATE FUNDS

1. *Heading.*—The name of the department, the title of the appropriation, the period covered by the report (i. e., December 31 or June 30), and the page number of each sheet should be entered in the appropriate blocks at the head of the sheet.

2. *Budget activity/program (cols. 1 and 2).* List under these columns the same numbers and titles as used in format A.

3. *Total annual program to date (col. 3).*—Enter in this column the distribution by budget activity/program or item of the total annual program (budget authorization but not necessarily the funded amount thereof) as approved on the date of the report (i. e., December 31 or June 30). The total annual program will include reimbursable operations, and the distribution in this column should be consistent with that shown in column 2 of the December 31 and June 30 reports on DD Form 690. The annual program will include all funds for all planned and approved programs, whether or not such funds have been apportioned or are included in administrative contingency reserves and whether or not such programs are planned for obligation or commitment within the current fiscal year. On the other hand, where, as a result of actions taken in connection with the apportionments or other administrative operations, the annual programs have been changed as a matter of planned reprogramming, properly approved by management, only the amount of the approved annual programs will be entered in this column (as is the case for amounts entered in column (2) of DD Form 690). In the event that the approved annual programs are less than the total funds available for programs, the line entry "Planned unprogramed amounts" will be used to indicate the savings planned in the annual accounts or to indicate the changes among program-years in the no-year appropriations. Actual reprogramings which result solely from the non-apportionment of funds will be reported in the same manner as other reprogramings, with the explanation being given as "Nonapportionment of funds."

4. *Reimbursements from other accounts (col. 4).*—Enter in this column the actual amounts of reimbursements to the date of the report which have been included in the amounts entered in column (3) as attributable to reimbursable operations. This method of reflecting reimbursable operations is designed to minimize the amount of "apparent" reprogramming merely as a result of changes in reimbursable work which may not affect the planned programs utilizing appropriated funds. Further, by subtracting the amount of reimbursements from the total annual program, the resultant net annual program for appropriated funds will be more nearly comparable with the net program as initially approved.

5. *Net program from appropriated funds (col. 5).*—Enter in this column the difference between the amount in column (3) and the amount in column (4) by budget activity/program or item. This difference will be assumed to represent, as closely as practicable, the net annual program from appropriated funds, in a manner similar to that used in the budget justification books for "direct" obligations.

6. *Adjusted net program (col. 6).*—Enter in this column the same amounts as reported in column (7) of format A.

7. *Total reprogramming during period (col. 7).*—Enter in this column the difference between the amount in column (5) and the amount in column (6) by budget activity/program or item. These differences will be both plus and minus. The amounts in this column will represent the total reprogramming, both major and minor, through the reporting period.

8. *Major reprogramming reported to Congress to date (col. 8).*—Enter in this column the amounts of the major reprogramings which have been cleared with the Assistant Secretary of Defense (Comptroller) and reported to the Congress through the reporting period. These clearances in letter form should be so maintained by some serial numbering system as to permit a rapid and accurate summary to be made for inclusion in this column of the report.

9. *Net reprogramming (col. 9).*—Enter in this column the difference in the amount in column (7) and the amount in column (8) by budget activity/program or item. These differences will represent all minor reprogramming, which did not require prior clearance, and any major reprogramming actions which have been cleared with the Assistant Secretary of Defense (Comptroller) but not yet reported to the Congress. Additional comments or remarks in explanation of the reprogramming report should be shown on the reverse of the sheets or by attaching a separate sheet to each applicable appropriation report.

Senator SYMINGTON. Reporting—does that mean you ask the Congress for, say 1,600 million on the basis of various airplanes and then you can change that at your will without coming back to the Congress and asking for permission to change it?

Mr. LANMAN. It is my understanding, sir, that no major change is made without consultation.

Senator KENNEDY. I want to ask one last question. How broadly can you reach into other sources of funds if you do not have sufficient funds to pay for a specific program?

Mr. LANMAN. Only within the confines of the same appropriation; that is, the aircraft appropriation.

Senator KENNEDY. For instance, can you take the money for fighters?

Mr. LANMAN. Because of the way money is appropriated, yes, sir.

Senator KENNEDY. Does it just have to be for planes or can it be for Air Force bases?

Mr. LANMAN. The Air Force has six major subdivisions.

Senator KENNEDY. Does every explanation have to be in one of those subdivisions?

Mr. LANMAN. Yes.

Senator SYMINGTON. Mr. Chairman, may I ask one more question?

Senator KENNEDY. Yes, and after that, we will adjourn. I also want these letters, referring to Senator Payne's bill, S. 3199, to be inserted in the record.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
March 19, 1956.

HON. JOHN F. KENNEDY,

*Chairman, Subcommittee on Reorganization
of the Committee on Government Operations
United States Senate, Washington 25, D. C.*

DEAR SENATOR: I am very sorry that I will not be able to be present at your hearings on S. 3199. This bill is designed to improve governmental budget and accounting procedures.

I would appreciate it if you would insert this letter in the record. As you know, I am a cosponsor of S. 3199 and think highly of its purposes and objectives. Accordingly, I urge that it receive the favorable action of your subcommittee.

With best wishes, I am,

Sincerely yours,

JOHN MARSHALL BUTLER,
United States Senator from Maryland.

UNITED STATES SENATE,
COMMITTEE ON PUBLIC WORKS,
March 20, 1956.

In re S. 3199.

HON. JOHN F. KENNEDY,
*Chairman, Subcommittee on Reorganization
of the Committee on Government Operations,
United States Senate.*

DEAR SENATOR KENNEDY: I have the honor to cosponsor S. 3199, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes. This bill, pending before your subcommittee, was introduced by our colleague, Senator Frederick Payne, whom I consider outstandingly qualified in this field by reason of his career in accounting and fiscal practices, both in business and Government.

Since Senator Payne will testify before your subcommittee, I will not make a detailed analysis of this measure. I am sure Senator Payne will present a strong case of its most serious consideration by your subcommittee.

This bill would implement the majority of recommendations of the second Hoover Commission Report on Budget and Accounting. A lion's share of the savings envisioned by the Commission to result from adoption of its recommendations, would result from implementation of its proposals in this area.

The potentialities of sound fiscal management have never been realized by the Federal Government. Budgeting is more than estimating expenditures and revenue. Budgeting should provide tools to control expenditure and to insist on efficient management of the agencies.

Accounting is more than mere tabulation of income and outgo. Accounting should provide financial facts to make a realistic review of past and proposed performance.

The foundation for our present Federal budget and accounting system was laid in the Budget and Accounting Act of 1921. Since then, the size of our Federal Government, as measured by its annual spending, has mushroomed to more than 15 times its 1921 size.

The single stark fact that the United States Government now spends \$65 billion a year should impress on the Congress the need for having the most modern and efficient budgeting and accounting systems devised by man.

In a recent speech in which he urged adoption of these recommendations, Mr. Hoover simply but eloquently stated the case for these proposals. He said, "Competence and leadership in the housekeeping of our Government are a contribution to freedom in every American home."

Letters to me from hundreds of Nebraskans indicate that there is a very wide base of support for the recommendations of the second Hoover Commission in my State.

Again, I urge your subcommittee to give implementation of the budgeting and accounting report of the Hoover Commission, as provided in S. 3199, its more serious consideration and favorable action, at a very early date.

Sincerely yours,

ROMAN L. HRUSKA,
United States Senator from Nebraska.

UNITED STATES SENATE,
COMMITTEE ON ARMED SERVICES,
March 21, 1956.

HON. JOHN F. KENNEDY,
*Chairman, Subcommittee on Reorganization
of the Committee on Government Operations,
Senate Office Building, Washington, D. C.*

My DEAR MR. CHAIRMAN: Senator Payne has advised me that you are to commence hearings shortly on the bill introduced by himself and others, including myself, "To Improve Governmental Budgeting and Accounting Methods and Procedures, and for Other Purposes." He also states that this bill combines the recommendations of the Hoover Commission on budgetary and accounting practices.

Whether or not this bill is in final satisfactory form to accomplish the results is for your Committee to say. I believe that the Federal system of budgeting and accounting methods can be improved. May I cite four instances:

1. Many of our municipalities and State governments have an accrual system. So far as I know, the Federal Government has none.

2. It is my understanding that there is no present method for accounting for outstanding checks. In other words, the cash balance of the Treasury Department is made up on day-to-day basis after the day's business is completed.

3. The inventory systems of the Government are far from complete. The armed services are building one up but it is progressing very slowly. Until very recently there was no inventory of real estate owned by the Government.

4. Under present budgetary practices, original estimates are built up almost a year in advance of the start of the fiscal year. In some instances they are outdated by the time they are put into effect.

While there are other instances that I could call to your attention, these are four examples which induced me to join in the filing of this bill. I appreciate the opportunity to join and to bring these facts to your attention.

With best regards, I am,

Sincerely,

LEVERETT SALTONSTALL,
United States Senator from Massachusetts.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., March 21, 1956.

HON. JOHN F. KENNEDY,
Chairman, Reorganization Subcommittee, Senate Committee on Government Operations, Washington, D. C.

DEAR MR. CHAIRMAN: I understand that the Reorganization Subcommittee is currently holding hearings on Senator Payne's bill, S. 3199, which would implement and carry out certain recommendations of the Hoover Commission's Budget and Accounting Report.

I would like to have been able to appear before your subcommittee to speak on behalf of Senator Payne's bill because I have a deep interest in the subject and have introduced in the House a bill, H. R. 9402, which is an exact companion measure to Senator Payne's bill. Unfortunately, because of prior commitments, I probably shall be unable to appear before your subcommittee today.

I would appreciate it very much if the subcommittee would accept, for insertion within the transcript of its hearings, my enclosed statement on behalf of Senator Payne's bill.

Sincerely yours,

GLENARD P. LIPSCOMB,
Member of Congress.

STATEMENT OF HON. GLENARD P. LIPSCOMB, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Mr. Chairman, I appreciate the subcommittee's permitting me to submit for the record of these hearings this statement endorsing Senator Payne's bill, S. 3199, introduced by the Senator on February 14, 1956, which would implement and carry out certain recommendations of the Hoover Commission contained in the Hoover Commission's Budget and Accounting Report transmitted to the Congress in June 1955.

On February 20, 1956, I introduced in the House a bill, H. R. 9402, which is an exact companion measure to Senator Payne's bill.

I would like to commend the Senate Government Operations Committee upon its timely and serious consideration of Senator Payne's bill and related budget and accounting reform proposals. I have long believed that one of the most important and pressing areas for legislative action is the field of budgeting and accounting. Significant improvements in financial management at almost all levels of Government are possible, and the Congress should make every effort to improve and modernize our governmental budgeting and accounting systems to make possible the most effective congressional control over Government expenditures.

I strongly urge the enactment of S. 3199 because I believe it will make possible more effective congressional control over Government expenditures. It does this by providing for cost-based accounting and cost-based budgeting throughout the Government. With cost-based budgeting the Congress will be in a position to make appropriations for each year in terms of the estimated annual accrued expenditures during that year—that is, Congress can make available to the executive agencies for any fiscal year funds only sufficient to cover the cost of goods and services estimated to be received in that year. The establishment of appropriations on an accrued expenditure basis is a fundamental step that must be taken if Congress is to regain effective control over the purse strings. This requires cost-based budgets which can be developed only if Government agencies maintain their accounts on an accrual basis.

Section 2 (b) of this bill provides that the accounts of each agency shall be kept on an accrual basis to show the actual cost of operation. This would facilitate the preparation of cost-based budgets.

Section 1 (b) provides that cost-based budgets should be used by all departments and agencies. It goes on to provide that all departments and agencies shall submit performance reports to the Bureau of the Budget. These reports will be important documents in making significant the cost-based performance budgets developed by the agencies.

To facilitate the development of cost-based accrual accounts and of cost-based performance budgets, section 2 (c) provides for the creation in the Bureau of the Budget of a Staff Office of Accounting. This agency, with the cooperation of the Department of the Treasury and the General Accounting Office, would assist the operating departments and agencies in the development of adequate accounting systems to meet the objectives of this bill.

The Congress, by enactment of the Budget and Accounting Procedures Act of 1950, took a significant step forward in providing for the use of program or performance budgets by the executive agencies of the Government. The objective of this law was to have the Government departments show how they intended to spend their money on the basis of the major programs that the agencies carry out. To make such a budget thoroughly effective and meaningful, Government accounts must be kept on a cost or an accrual basis and not merely on an appropriations basis. The agencies must be able to tell what a given program has cost and is likely to cost in a given fiscal year, and not merely how much appropriated funds have been spent in a given fiscal year. Only with adequate accrual cost-based accounts can a budget be developed that will show how much a given program is likely to cost in a given fiscal year. Thus the enactment of this bill, in my opinion, is a necessary step to make thoroughly effective the Budget and Accounting Procedures Act of 1950.

The most important reason for the enactment of this bill is that only through the use of accrual accounting and cost-based budgets can the Congress regain more effective control of the purse, because then it will be in a position to make annual appropriations on the basis of the estimated accrued expenditures that are to be made during the forthcoming fiscal year. This would put an end to the practice in the executive agencies of building up unexpended balances of appropriated funds. At the beginning of the fiscal year 1956, there was available to Government agencies out of funds appropriated for previous fiscal years \$53,900 million of unexpended funds.

The availability of such large unexpended balances of appropriated funds impairs congressional control over the purse for several reasons:

First, it creates an incentive upon the part of the spending agencies to obligate funds to prevent appropriations from lapsing.

Second, Congress is not able to control the cost incurred in carrying out specifically approved programs.

Third, Congress cannot control the level of expenditures in any given year. The amount of money appropriated for any fiscal year under present circumstances has little relationship to the amount of money spent in that fiscal year.

Fourth, there is no direct and effective control over the budget surplus or deficit in any fiscal year.

If the Congress, made up of the chosen representatives of the American people, is to exercise any constitutional degree of effective control over the executive branch, it must be in a position to control the amount of money to be expended by it. Effective control over the purse is one of the most important devices available to Congress for protecting the American people from the potentiality of irresponsible expenditures.

The enactment of S. 3199 will make it possible for us to attain this objective, and it will enable the executive branch to develop adequate accounting that is a necessary tool for efficient management.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington 6, D. C., March 20, 1956.

HON. JOHN F. KENNEDY,
*Senate Committee on Government Operations,
Senate Office Building, Washington, D. C.*

DEAR SENATOR KENNEDY: A statement in support of the underlying objectives of S. 3199, upon which bill your subcommittee is holding hearings, is being prepared for submission on behalf of the Chamber of Commerce of the United States by Mr. M. C. Conick, resident partner, Main & Co., First National Bank Building, Pittsburgh, Pa.

We would very much appreciate permission to submit it later for the record of your hearings.

Cordially yours,

CLARENCE R. MILES,
Manager, Legislative Department.

Senator KENNEDY. The hearing will be resumed on Monday and the Department of Defense will have a chance to discuss this subject.

Mr. LANMAN. Mr. McNeil asked me to apologize for his absence. He is unavoidably out of the city.

Senator KENNEDY. Can he be with us on Monday?

Mr. LANMAN. I hope so, sir. I will discuss it with him.

Senator KENNEDY. At the suggestion of Senator Symington we will have the hearing on Tuesday, as far as the Department of Defense is concerned, and some of the other agencies, which were notified this afternoon, can be heard on Monday.

Senator SYMINGTON. I would like to ask one more question.

Senator KENNEDY. Yes.

Senator SYMINGTON. Are there any differences with respect to long-term purchase contractual obligations between the various services? As I understand it, you say there are not?

Mr. LANMAN. With respect to the most major items, sir, there is no difference, but there are some.

Senator SYMINGTON. Most major—

Mr. LANMAN. Ships, aircraft, and so forth.

Senator SYMINGTON. All on the same basis?

Mr. LANMAN. Yes, sir, except that in the Navy and in 1 or 2 aspects of the maintenance and operations appropriations, there are some long-lead-time items which are financed by annual appropriations which we discussed here yesterday. This is not, however, comparatively speaking, a large segment of our procurement.

Senator SYMINGTON. I understand. In other words, the major things run across the board for all services; is that right?

Mr. LANMAN. Major items.

Senator SYMINGTON. Thank you, Mr. Lanman.

Senator PAYNE, would you care to ask any questions?

Senator PAYNE. No, thank you very much. I know you are anxious to get up on the floor. This is an interesting subject.

Senator SYMINGTON. I would be very glad to yield to somebody who knows as much as you do.

Senator PAYNE. Thank you very much. The point that we have been discussing is the one I did leave out of the bill. I did say in the statement, which was read prior to your being able to come to this committee, my strong support, however, of this provision and urging the committee to give real consideration to adding it to the bill because it was needed.

Let me just say, finally, that my interest in this goes back a long, long way because my start in life in this field came through the distinguished father of the chairman of this subcommittee, Joseph P. Kennedy, who is a very distinguished gentleman. I worked with him for many years in theater operations.

Senator SYMINGTON. Thank you, Senator.

The subcommittee will recess until 10 o'clock on Monday.

(Whereupon, at 12:05 p. m., the subcommittee adjourned.)

BUDGETING AND ACCOUNTING

MONDAY, MARCH 26, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON REORGANIZATION OF
THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 412, Senate Office Building, Washington, D. C., Senator Strom Thurmond, presiding.

Present: Senators Strom Thurmond, Democrat, South Carolina; Norris Cotton, Republican, New Hampshire, and Thomas E. Martin, Republican, Iowa.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator THURMOND. We will resume hearings today upon recommendations made by the Hoover Commission relating to improvements in the Government's budgeting and accounting systems.

The subcommittee will receive testimony this morning from representatives of the Bureau of the Budget, the General Accounting Office, and the Treasury Department on S. 3199, which would implement the Hoover Commission's recommendations in these important areas.

The chairman, Senator Kennedy, who is out of the city today, has asked me to express his appreciation and that of the subcommittee to the witnesses who were not heard on Wednesday last, and who have returned today to present their testimony.

Now, just before we hear the first witness, Mr. William F. Finan, Assistant Director for Management and Organization, the Bureau of the Budget, we are going to give the Senator from New Hampshire, Senator Cotton, an opportunity to present a statement.

STATEMENT OF HON. NORRIS COTTON, UNITED STATES SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator COTTON. Mr. Chairman, I wish to make a brief statement, as a member of the subcommittee and as a cosponsor of S. 3362, before we hear the first witness, in order to bring out an important and heretofore unmentioned aspect of the bill.

If enacted in substantially its present form, as I hope it will be, S. 3362 will reduce the amount of carryover funds available for expenditure after the end of the current fiscal year by an estimated \$5 billion.

It will increase congressional control of the purse strings to the extent of \$5 billion by requiring new appropriations from Congress before that amount can be spent.

Furthermore, the bill will reduce the balance of unused appropriations available after the end of the next fiscal year by an additional \$2.5 billion, based on current estimates.

These tremendous carryover balances have made it difficult both for Congress to gain control of the purse and for the executive branch to get control of Government spending.

The President's budget estimates that the amount of these funds which will be available at the beginning of the fiscal year starting July 1, 1956, is \$47.6 billion. Passage of this bill would reduce that amount to an estimated \$42.6 billion.

The bill will further reduce the funds to be carried forward at the end of the 1957 fiscal year to an estimated \$39.3 billion, just about half as much as they were when the Eisenhower administration took office.

These reductions are accomplished in the bill by requiring all agencies to write off their books and return to the Treasury within 90 days after the end of the fiscal year all unobligated annual appropriations for that year. Under the present law, these amounts are available for expenditure by the departments and agencies for an additional 2 years.

While these reductions will not actually affect the balancing of the budget, the fact that amounts of this magnitude will be written off the books of the various departments should aid in producing sufficient economies and savings.

It also seems worth noting that the bill would result in additional direct savings which in the General Accounting Office alone will amount to about \$600,000 a year.

Mr. Chairman, I wanted to make that statement because I have been intensely interested in this bill and was one of its sponsors, and it seemed an amazing thing to me that it had such a far-reaching significance, not in savings, but in the bookkeeping of the Government. And I want to get that before the subcommittee.

Senator THURMOND. We are indeed grateful to the able and distinguished Senator from New Hampshire.

Senator COTTON. Thank you, Mr. Chairman.

Senator THURMOND. Mr. William F. Finan, assistant director for management and organization of the Bureau of the Budget, is our first witness this morning on S. 3199.

We are glad to have him with us and ask him to proceed.

Mr. FINAN. Thank you, Mr. Chairman. I am very happy to be here this morning.

Senator THURMOND. If you would like to introduce your associate, we would be glad to have you do so.

Mr. FINAN. I am accompanied by Mr. William J. Armstrong, who is the Chief of the Accounting Group of the Bureau of the Budget.

STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR
MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET;
ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING
GROUP, BUREAU OF THE BUDGET

Senator THURMOND. Mr. Finan, would you care to summarize your statement? We will place your entire statement in the record. If you care just to summarize it for the purposes here, it might save time. (The prepared statement of Mr. Finan is as follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 20, 1956.

HON. JOHN F. KENNEDY,
*Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate, Washington 25, D. C.*

MY DEAR MR. CHAIRMAN: This will acknowledge your letter of February 21, 1956, inviting the Bureau of the Budget to comment on S. 3199, a bill "To improve governmental budgeting and accounting methods and procedures, and for other purposes."

This bill is based upon the budget and accounting report of the Commission on Organization of the Executive Branch of the Government. The Bureau of the Budget has the following comments to offer on the various provisions of S. 3199.

AMENDMENTS TO THE BUDGET AND ACCOUNTING ACT, 1921

Section 1 (a): This subsection adds additional language to section 213 of the Budget and Accounting Act of 1921. It is designed to implement recommendation No. 22 of the Hoover Commission Budget and Accounting Report. In making this recommendation, the Hoover Commission suggested amending the Budget and Accounting Procedures Act of 1950, to make the Bureau of the Budget responsible for developing comprehensive reports of the financial results of activities for the Government as a whole and for each of its major component activities. Since this subsection amends the Budget and Accounting Act of 1921 and specifies the preparation of comprehensive reports showing financial results for activities of the departments and establishments, it is more limited in coverage than the Hoover Commission recommendation. Under the definitions of the 1921 act, the terms "departments and establishments" exclude the legislative branch and the Supreme Court.

It should be noted that this recommendation is also the subject of separate pending legislation: H. R. 8236 and S. 3323, bills "To provide for comprehensive reports by the Bureau of the Budget with respect to all branches of the Government and the executive agencies thereof." Both of these latter bills amend the Budget and Accounting Procedures Act of 1950 and, as indicated by their titles, their coverage is broader.

The existing provisions of the Budget and Accounting Procedures Act of 1950 require that the Secretary of the Treasury prepare reports that will "present the results of the financial operations of the Government" and this bill does not amend that requirement. This provision would, therefore, hold a potential for duplication of effort in the central agencies as well as undesirable effects in the operating agencies required to produce the necessary information.

The development of an integrated system of financial reporting by the Federal Government that would avoid duplication of effort in the operating and central agencies is one of the major objectives of the joint accounting program. Progress has been and is being made in that direction, based on the cooperative efforts of the General Accounting Office, the Bureau of the Budget, the Treasury Department, and the operating agencies. Illustrative are recent improvements in the central reports issued by the Treasury Department. Work is currently underway on the development by the operating agencies of the kinds of financial information which will be needed to provide the basis of improved central reports of the types recommended by the Hoover Commission. The Bureau of the Budget fully supports the objectives of the Commission in this respect. As the Commission

task force noted, however, this objective cannot be completely attained until the accounting systems throughout the executive branch have been developed sufficiently to produce the necessary data.

In view of these facts we believe that legislation on this subject at this time would be premature. We recommend therefore that section 1 (a) be deleted from S. 3199.

Section 1 (b): This subsection would amend section 216 of the Budget and Accounting Act of 1921 and would have the effect of writing into law four of the Hoover Commission recommendations. As amended, subsection (a) of section 216 would require the use of cost based operating budgets by all departments and establishments as proposed in recommendation No. 3 of the Hoover Commission. Subsection (b) would require internal quarterly performance reports to the heads of departments and establishments; annual agency reports on the conduct of operations to the Bureau of the Budget; and an annual report from the Bureau of the Budget to the President on the performance of all departments and establishments. This would enact recommendation No. 2 and the remainder of recommendation No. 3 of the Hoover Commission. Subsection (c) would direct the preparation of appropriation requests on a cost basis, consistent with the suggestions contained in Hoover Commission recommendation No. 6. Subsection (d) would require the submission of data on program costs and accomplishments and provide for review of organizational performance, thus covering that portion of the Commission's recommendation No. 4 that is not already specified in the Budget and Accounting Act, as amended.

The Bureau of the Budget is in agreement with the objectives of each of the Hoover Commission recommendations involved in section 1 (b) of S. 3199. Each of these proposals can, however, be implemented without specific legislation of the type proposed.

With regard to the proposed section 216 (b), for example, the entire reporting process has been given continuous attention by the Bureau of the Budget as part of its management functions and responsibilities. The Bureau has encouraged agency action in the development and internal use of suitable performance information for management and budgetary purposes. The complexity of agency operations and the variety of purposes to be served makes it undesirable, however, to fix the timing of internal reports in the manner proposed in this legislation. With respect to external reporting, the agencies regularly submit reports on the conduct of operations to the Bureau of the Budget as part of the budget process; and the Bureau submits pertinent information of this type to the President informally throughout the year and more formally during the period of annual budget formulation.

The matter of improving performance reports is not so much one of prescribing requirements as it is one of applying sufficient staff to the work to bring about more rapid accomplishment of the desired improvements. Work needs to be concentrated on determining the requirements to be met in relation to the information available at each level of operation, and on developing the necessary data in a form calculated to be most helpful to those who will use it. The President and other officials of the executive branch all now have adequate authority to obtain the reports and information which they require. In order to permit the development of reporting practices most suitable to the purposes to be served at each management level, the Bureau of the Budget would therefore recommend against enactment of the proposed section 216 (b).

The other proposed subsections—216 (a), (c), and (d)—specify the use of costs for management and budgetary purposes. Costs are recognized as an important element in management and budgeting in the executive branch and this Bureau in recent years has been encouraging the introduction of such data into the budget process. We understand by these subsections that reference is made to the type of cost-based budgets we have been introducing—showing costs reconciled to obligations. The use of cost information as proposed, however, is dependent upon the ability of agency accounting systems to produce such data. While the joint accounting program has made considerable progress in advancing the cost concept throughout the Government, the installation in the agencies of accounting systems that develop such data will take a long time. This is recognized in section 2 (b) of this bill which requires such installations "as soon as practicable." We believe that a similar provision should be included in subsections 216 (a), (c) and (d). In addition, we suggest the deletion of the last part of subsection (d) which requires a review of performance by organizational units whenever such units do not coincide with performance

budget classifications. This provision would add much detail inappropriate for inclusion in the budget document itself. Such material can be furnished the Congress as part of the budget justifications. With these changes the Bureau of the Budget has no objection to the enactment of subsections 216 (a), (c) and (d).

Section 1 (c): This subsection of S. 3199 adds a new section to title II of the Budget and Accounting Act of 1921. The language is directed toward partial implementation of the first recommendation in the Hoover Commission Budget and Accounting Report—more particularly that part concerned with staff assignments in the Bureau of the Budget. It directs the placement of Bureau employees in the principal departments and establishments on a rotating basis, specifies that not more than two persons shall be placed in each principal subdivision of such units, and indicates that such persons shall possess the combined skills of a statistician, cost accountant, administrative expert, and program analyst.

This subsection of the bill involves the all-important area of Bureau-agency relationships. For best results, the Bureau has found that relationships with the agencies must be based on cooperation and mutual understanding of the basic factors underlying the submission and presentation of agency budgets. Limited attempts toward the type of arrangement proposed have met with little success in the past. The enactment of legislation on this point would, we believe, have an undesirable effect on the cooperative effort required between this Bureau and the agencies in developing the executive budget. In addition, it would be difficult for the Bureau to meet the specifics of this section in terms of staffing and rotation of assignments and it would be virtually impossible to find persons with the stated qualifications. The Bureau therefore recommends against enactment of section 1 (c). It is proposed to adopt a substantial part of recommendation No. 1 by administrative action.

AMENDMENTS TO THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

Section 2 (a): This subsection covers Hoover Commission Recommendation No. 5, which suggests further synchronization of agency organization, budget, and accounting classifications. This is a desirable objective, one that meets with full agreement throughout the executive branch when the principle is applied on a practical basis. Since adoption of the performance budget concept, the Bureau of the Budget and joint accounting program staff have continuously emphasized this need. Considerable progress has been made and the agencies are directing efforts toward the resolution of existing problems in this area under instructions issued by the Bureau of the Budget.

Experience has shown that this principle must be applied on an individual agency basis—striving for consistency to the extent feasible while recognizing the need for adequate budget presentation of the programs conducted by the agency. In view of the progress made to date, the governmentwide acceptance of this objective, and the continuous attention being given this subject in the budget process, the legislation proposed would be unnecessary. Accordingly, the Bureau of the Budget recommends that section 2 (a) not be enacted.

Section 2 (b): This provision has the effect of requiring each agency to maintain an accrual accounting system, including appropriate monetary property accounts. The purpose of this requirement is to provide cost information to serve the management and budgetary needs of the agency and the Government. The section is based upon two of the Hoover Commission recommendations in the accounting area—Nos. 14 and 16.

The maintenance of accounts on the accrual basis is generally recognized as the most suitable method of obtaining information that provides for full disclosure of agency operations and financing. The installation of such systems has been one of the major objectives of the joint accounting program. By reason of the nature of the work involved, however, this is a long-range job—which is recognized in the language of this subsection. In view of the relationship of this proposal to the legislation for cost-based budgeting contained in section 1 (b) of this bill, the Bureau of the Budget similarly has no objection to the enactments to the Budget and Accounting Procedures Act of 1950. These two new actment of section 2 (b).

Section 2 (c): This portion of the proposed bill would add two additional sections would establish a Staff Office of Accounting in the Bureau of the Budget, headed by an Assistant Director for Accounting, who would be appointed by the

President and assigned specific duties; and would authorize and direct the head of each executive agency to provide for the appointment of a comptroller who would similarly be assigned specific duties. This reflects Hoover Commission Recommendation Nos. 10 and 11, which are also the subject of separate pending legislation: H. R. 7209, H. R. 7338, S. 2369, and S. 2480, bills "To provide for improving accounting in the executive branch of the Government, and for other purposes."

The substance of recommendation Nos. 10 and 11 is very fundamental to the general purpose of the report on budget and accounting. Assistant Director Rappaport has recently been designated as responsible for expanding the Accounting Group of the Bureau of the Budget and implementing these recommendations.

It is our understanding that the purpose of the Hoover Commission recommendations on this subject was to propose these organizational arrangements for consideration of the heads of the affected agencies, rather than to suggest the passage of legislation on the matter. This subsection, however, would prescribe by law the internal organization and functions for financial management in the executive agencies. This runs counter to the principle of organizational flexibility reflected in the recommendations of the first Hoover Commission, which were strongly endorsed by the Congress in subsequent legislative enactments. In order to provide for the most practicable and efficient operation in each agency, the responsible head of the organization should be permitted flexibility in the assignment of functions and duties, rather than to have a rigid organization pattern imposed by law on his fiscal organization.

Moreover, the provision for presidential appointment of an Assistant Director for Accounting in the Bureau of the Budget, as prescribed in this legislation, is inconsistent with the present method of appointing assistant directors. Appointments are now made by the Director of the Bureau of the Budget and we consider that to be the appropriate method.

The Bureau of the Budget feels that this legislation is undesirable and therefore proposes deletion of section 2 (c) of S. 3199.

ADDITIONAL PROVISIONS

The remaining three sections of this bill establish new basic legislation in the area of budgeting and accounting in the Federal Government.

Section 3: This section establishes the intent of Congress that the Government's allotment system should be simplified, with the objective of establishing a single allotment for each operating unit in an agency. This would directly implement Hoover Commission Recommendation No. 13, which has met with complete agreement in the executive branch.

A single allotment for each operating unit is desirable from the management standpoint and is urged where practicable to provide maximum flexibility in the conduct of operations. Effective progress has been made, particularly in the installation of accrual accounting systems. In such installations, allotments are generally established for fund control at the highest practical level, with subordinate cost accounts utilized for operational control purposes.

While this work has proceeded and could continue on the basis of administrative direction, the Bureau of the Budget would have no objection to enactment of this section of the bill in view of its relationship to the provision for adoption of accrual accounting.

Section 4: This part of this proposed legislation prescribes the use of a single account for liquidation of valid obligations under each appropriation or fund in the respective executive agencies. This represents a direct legislative statement of Hoover Commission Recommendation No. 17, which is directed toward simplification of existing accounting requirements.

Legislation is necessary to enable implementation of this Hoover Commission proposal, and a bill suitable for this purpose has been developed under the joint accounting program. This proposal has been introduced as separate legislation, designated as H. R. 9593 and S. 3362. This separate legislation not only would provide for a desirable simplification in the maintenance of appropriation accounts, but would also carry out Hoover Commission Recommendation No. 18—which is not covered by S. 3199. This latter recommendation suggests the settlement of valid claims within the agencies rather than by the General Accounting Office.

The proposed bills mentioned immediately above differ from the provisions of section 4 of S. 3199 in that all prior year accounts under a single appropriation would be merged into one account but would be kept separate from the current ap-

propriation. This relatively minor deviation from the Hoover Commission proposal is considered desirable to avoid the possibility of augmentation of current year funds by excess obligating authority accruing from prior year appropriations.

In view of these considerations, the Bureau of the Budget recommends the deletion of section 4 from S. 3199; but suggests favorable consideration of the separate legislation identified above in order to attain the accounting simplifications desired.

Section 5: The last section of this bill would require the Comptroller General and the Director of the Bureau of the Budget to make joint studies of steps to eliminate duplicate accounting within the Treasury Department and between that Department and other agencies and of internal auditing in executive agencies; and to report to the Congress on their findings within 2 years of enactment of the legislation. This is directed toward accomplishment of Hoover Commission Recommendations Nos. 20 and 25.

As previously pointed out, the improvement of central accounting and reporting has been a major activity under the joint accounting program since its inception. Work is currently under way on installation of a system designed to eliminate duplicate accounts within the Treasury Department. As for the elimination of duplicate accounts between Treasury and the agencies, this is a matter of current concern to a joint working group established for the simplification of the central accounting and reporting processes. This group has as a primary objective the elimination of such duplicate accounts as soon as such action is feasible. A joint study like that proposed, therefore, seems to us to be unnecessary.

The subject of internal auditing has also been given continuous attention under the joint accounting program. It has been recognized as a basic element in the internal control systems required in the agencies by the Budget and Accounting Procedures Act of 1950. In this framework, the internal audit practices of the agencies are under continuous study by General Accounting Office staff in the conduct of their comprehensive audit program. Their findings and recommendations on this subject are included in the audit reports prepared for submission to the Congress. Nevertheless, as a result of the Hoover Commission proposal, a special study such as that proposed here will be considered by the central agencies conducting the joint accounting program.

In view of the circumstances and the fact that these are one-time investigations, legislative provision for the conduct of these studies is unnecessary. The Bureau of the Budget, therefore, recommends against enactment of section 5 of the bill.

SUMMARY

After thorough consideration of the proposed S. 3199, the Bureau of the Budget is of the opinion that while the basic objective of this bill is meritorious and highly desirable, most of the proposed actions can be accomplished more readily and appropriately by administrative action. However, as indicated above, the Bureau of the Budget would have no objection to the enactment of those sections of the bill that provide for the use of accrual accounting and cost-based budgeting. Such legislative provisions would firmly establish these principles for use in governmental budgeting and accounting, which would in turn support current efforts under the joint accounting program, and provide a stimulus for further implementation of other Hoover Commission proposals relating to budgeting and accounting.

Sincerely yours,

ROWLAND HUGHES, *Director*.

Mr. FINAN. I understand, Mr. Chairman, that the subcommittee members have had an opportunity to review the report of the Budget Director on S. 3199, which deals with the various provisions of the bill very extensively, so that this morning I think a very brief comment by me will be all that is necessary, and then we will be available to answer any questions which the committee may care to ask.

In summary, the Bureau's position on this bill is as follows:

We find ourselves generally in complete agreement with the overall objective of this piece of legislation, which is to provide an additional basis for further modernization and reform of the Government's budget and accounting procedures.

We find upon review of the specific provisions of the bill, however, Mr. Chairman, that many of them, in our judgment, are unnecessary in that there is already an adequate legal basis for the work which is currently going forward in the areas that are covered in the various sections of this bill.

There are, however, several sections which were specified in the Director's report, which the Bureau would have no objection to seeing enacted into legislation, in that they would provide, in some limited respects at least, additional legislative sanction or, you might say, congressional blessing for work upon various aspects of the Government's budgeting and accounting procedures, where there is quite general agreement as to what our objectives are.

Those sections generally deal with the provisions that would provide for the use of accrual accounting and cost-based budgeting in the executive branch of the Government.

I think that is about as near as I can get to a capsule summary of our position on this bill, Mr. Chairman.

Senator THURMOND. Mr. Finan, how would an accrual accounting system work?

Mr. FINAN. The basic feature of an accrual accounting system, Mr. Chairman, would be one that would take into account goods and services received or consumed in connection with the execution of a particular program of Government, in contrast to what might be called obligation accounting, which primarily takes into account commitments that the Government makes to spend or, in other words, orders placed or contracts let, and that sort of thing.

One of the big areas of the Government where this form of accounting is of particular significance is where inventories are of major importance in connection with the program.

Senator THURMOND. What is the difference between our present obligation system and the accrual accounting method of recording obligations?

Mr. FINAN. Principally, Mr. Chairman, that we currently primarily base our accounting upon an agency's obligations under a particular appropriation. In other words, you obligate funds when you issue an order or you sign a contract. In many cases, as you know, it may be months, and in some of our big programs where lead time is of very great importance, even years, before an item is delivered and the Government then either concurrently or subsequently is billed and has to pay for it. Accrual accounting places primary emphasis upon the rate of both goods and services.

Senator THURMOND. What advantage to the Government will result if we adopted a cost-based budgeting and an accrual accounting system?

Mr. FINAN. Principally in our opinion, Mr. Chairman, increased precision in control over the program itself and, as I have stated, in taking into account the rate of consumption of inventories.

To illustrate, an agency that begins a fiscal year and ends it with an inventory of about the same value would require, let us say, for the sake of illustration, \$1 million. That same agency, if during that year it reduced its level of inventory by, again for the sake of illustration \$500,000, would only actually require an additional \$500,000 in funds to carry out the same program.

When you are concentrating strictly on obligation accounting, neither the expansion nor the contraction of inventory is taken account of in a determination of what a current year's funding requirements may be.

Senator THURMOND. Senator Cotton, do you have any questions you would like to ask?

Senator COTTON. I noticed you used the phrase in your brief summary of obtaining congressional blessing on this method. Do I assume from that that these changes could have been made without a statute passed by Congress? You could have put it into effect yourselves?

Mr. FINAN. These changes, Senator Cotton, installation of accounting on the accrual basis, are actually going forward at the present time. They are proceeding at a rate, however, which many consider to be inadequate. That was certainly the position of both the Hoover Commission itself and its task force.

I think it is a fair statement to say that in the main, the Hoover Commission recommended little in the way of a change in current policies or current objectives in our program for improving the Governments accounting and budgeting procedures. Their primary consideration ran to the rate at which these improvements were being placed into effect.

Senator COTTON. We are merely writing in the statute, and by passing the statute, adding impetus to something that you already can do and are doing?

Mr. FINAN. That is correct, sir.

Senator COTTON. Thank you, Mr. Finan.

Senator THURMOND. Do you have any questions, Mr. Scull?

Mr. SCULL. Mr. Finan, the Hoover Commission in its report on budgeting and accounting, estimates that the total savings which might accrue to the Federal Government if all the Hoover Commission recommendations in this area were effectuated would amount to approximately \$4 billion. Have you any comment to make upon that estimate?

Mr. FINAN. Well, the first comment, Mr. Scull, is that it was my impression that it was not the Hoover Commission that made that estimate. It was the task force. The Hoover Commission printed it. But I understand the Commission was rather careful all the way through not to have the Commission itself specifically endorse any savings estimates.

Secondly, the task force apparently merely took the position that we have got an extremely large budget, and it would seem reasonable to assume that if you improved your budgeting and accounting procedures, you ought to be able to save, and I think they took a relatively small percentage figure, and applied that to the total budget, and estimated possible savings at about \$4 million.

Mr. SCULL. \$4 billion, I believe, sir.

Mr. FINAN. \$4 billion; correct.

It is just a sweeping kind of estimate which you can neither support nor attack, so to speak, because there is no underpinning to it to analyze and determine how much validity there is to it.

Mr. SCULL. Do you believe the Bureau of the Budget could substantiate that estimate or document it?

Mr. FINAN. I would doubt it very much. I do not see how it lends itself to documentation.

Mr. SCULL. That is all, Mr. Chairman.

Senator THURMOND. Thank you very much, Mr. Finan.

Mr. FINAN. Thank you, Mr. Chairman.

Senator THURMOND. Mr. Robert F. Keller, from the General Accounting Office. Mr. Keller is assistant to the Comptroller General of the United States.

Mr. Keller, come forward, please. I believe you are accompanied by Mr. Brasfield, are you not?

Mr. KELLER. Mr. Chairman, Mr. Brasfield will give the position of the General Accounting Office on S. 3199.

Senator THURMOND. We will be glad to hear Mr. Brasfield.

Mr. BRASFIELD. Thank you, Mr. Chairman.

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES

Mr. BRASFIELD. Mr. Chairman, I will follow the course of action you suggested to the previous witness if you so desire.

Senator THURMOND. It will be all right to summarize and place your entire statement in the record.

(The prepared statement of Mr. Brasfield is as follows:)

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to appear before you to discuss S. 3199, S. 2369, and S. 2480, which are designed to implement certain of the recommendations contained in the budget and accounting report of the Hoover Commission. We will deal first with S. 3199 which is the broadest one of the three bills.

We regard S. 3199 as basic legislation designed primarily to set forth general policies and objectives. Most of these policies and objectives would be put into practice under rules and procedures to be developed by the Bureau of the Budget and, in some cases, by the Comptroller General. In other words, the bill would prescribe no hard and fast procedures and the practical aspects would need to be worked out in collaboration with the agencies in the same general manner as other similar provisions of law are now applied. Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill because not all agencies now have the necessary tools in the form of systems of programing, budgeting, and accounting that would be required. It is believed, however, that a statement of objectives of the character contained in the bill would do much to hasten the development of such working tools.

Section 1 (a) relates to comprehensive reports other than purely fiscal reports to be prepared by the Director, Bureau of the Budget.

Inasmuch as this section pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities, we believe this is a matter which can best be determined by the Bureau and the Congress. We suggest the desirability, however, that such information be obtained through the regular budgetary processes and be included in the President's annual budget.

Section 1 (b). This section would amend section 216 of the Budget and Accounting Act, 1921. If cost based budgets were used for management purposes in making fund allocations within the departments and establishments as proposed by section 216 (a), the information submitted for budgetary purposes would be substantially more meaningful. We endorse this proposal and will develop our discussion of it more fully in our comments on section 216 (c).

As to the proposed section 216 (b), we believe the President should be kept informed in a timely manner of significant factors relating to the operating agencies of the executive branch. However, the annual consideration of the budget would seem to be an appropriate vehicle for this purpose and we doubt the need for a separate report. We believe that the major program or bureau level is ordinarily the most meaningful basis for reporting purposes.

Proposed sections 216 (c) and (d), if effectively carried out, would offer a great opportunity for improvement in the financial management of executive agencies. Briefly, the more important advantages from the use of cost data in budgeting are:

1. Cost data (based on man-days worked, materials used, etc.) can be directly related to work accomplished in prior periods and offers a basis for comparison with proposed plans.

2. A proposed work plan (budget) stated in terms of costs (resources to be consumed) can be realistically evaluated against new money requirements by taking into consideration inventories and other resources on order and on hand at the beginning and those resources to be carried over for use in subsequent periods.

3. Cost data can be related to the responsibilities of each segment of the organization and its accomplishments.

4. Cost budgeting permits maximum opportunity for exercise of management initiative and precludes need for rigid fund control (on a detailed basis) with its deadening influence.

In using the term "cost based budgets" we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations. For example, a cost based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or a service. Cost budgeting need not be restricted to consumption operations. However, in considering consumption operations, there is obviously a limit to which the concept can be carried and still have a practical value. For example, careful consideration would need to be given to the extent to which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of budgets to the Congress. This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost based budgets are certainly not dependent upon the application of depreciation concepts to military hardware.

The primary advantage of budgeting on a cost basis to both management and the Congress is that total resources to be used (on hand, on order, and to be procured) are reviewed rather than limiting the budget review processes to new money in the form of an appropriation request. In terms of numbers of activities or appropriations, there is a relatively close relationship between obligations, expenditures and costs in those many operations primarily concerned with personal services. On the other hand, dollarwise, the greatest significance attaches to those appropriations relatively few in number but which provide for operations involving vast quantities of materials and physical assets. Major procurement, construction and research, and development ordinarily fall in the latter category and it is in these areas that budgeting on a cost basis would produce major savings, although its adoption would improve financial management in many other areas to a lesser degree.

It should be noted that agency budgets can be formulated and administered on a cost basis under present practices of stating appropriation authorizations on an obligation basis and this is currently being done in some cases. The cost presentation is confined to the justification material in the greater number of such instances. However, the impetus to furnish cost data to the Congress would be greatly enhanced by teaming up the cost based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budget and Accounting. This would provide the best opportunity for improved correlation of programing, budgeting, and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis.

The best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and (3) costs for both in terms of total resources consumed. With this point of departure the budget can then be assessed in terms of (a) costs to be incurred, (b) resources already available in terms of inventories, etc., plus carried over funds, and (c) new money or

authority needed. The essential difference in this approach, which ties in with the recommendations for cost budgets and accrued expenditure appropriations, as contrasted with present practices based on appropriations stated in terms of obligation authority is the degree of emphasis which the latter places on new money rather than total resources to be consumed and the extent of resources already available.

The advantages of placing appropriations on an accrued expenditure basis are both tangible and intangible. The annual budget surplus or deficit is determined on the basis of expenditures. Establishing a direct correlation between annual appropriations and expenditures vests in the Congress a much greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carryover balances now available for expenditure at the discretion of the executive agencies. The present situation concerning available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

It is inherent in the recommendations under discussion that congressional authority be granted for the advance planning which necessarily precedes the phase of operations covered in an annual accrued expenditure budget. In the past, this authority has been termed contract authorizations but it is a significant fact that heretofore both contract authorizations and subsequent appropriations were stated in terms of obligational authority whereas under the recommendations herein being considered only the initial authorization would be stated in terms of the broad and difficult to apply concept of obligations whereas annual authority could be stated much more definitely in terms of accrued expenditures because of the time factor. It is essential that the initial authority which may cover a forward period, sometimes as great as 5 years or more, be in the most flexible terms and requests for such authority obviously cannot be supported with detailed plans. On the other hand, as these plans take shape in succeeding years much more precise planning and authorizations are practical when stated in terms of accrued expenditures. Thus, the current recommendations are not, nor need not be, viewed as a return to prior practices during the period when contract authorizations were prevalent and significant weaknesses were apparent.

Section 1 (c) : The proposed section 218 of the Budget and Accounting Act, 1921, pertains to the operations of the Bureau of the Budget in the discharge of its own responsibilities and primarily involve management decisions affecting that Bureau. We believe these are matters which can best be determined by the Bureau and the Congress and, accordingly, we offer no specific views in the matter.

Section 2 (a) : Our comments above on the proposed sections 216 (c) and (d) are equally applicable to this section 2 (a). We, therefore, endorse the objective to obtain consistency in organizational structure, budget classifications, and accounting systems within each executive agency.

Section 2 (b) : We endorse this amendment to section 113 of the Budget and Accounting Procedures Act of 1950. The maintenance of accounts on an accrual basis is one facet which is essential to the accomplishment of the objectives set forth in other sections of the bill. Experience under the joint accounting improvement program clearly indicates that the accrual basis, when applied to significant items, is a major factor in providing better control over resources and liabilities and is an essential element in obtaining adequate cost data. Our Statement of Accounting Principles provides for the appropriate use of the accrual basis. We also believe that adequate monetary property accounting records, as an integral part of accounting systems, are essential to several other proposed amendments such as accrual accounting, cost budgeting, etc., as well as the specific advantages to management which will result from adequate financial accounting for property.

Section 2 (c) : The proposed section 120 of the Budget and Accounting Procedures Act of 1950 would establish a "Staff Office of Accounting" in the Bureau of the Budget. The objective of this recommendation, as we understand it, is to afford a means by which the executive branch can more effectively meet its responsibilities to stimulate improvements in accounting. The recommendation recognizes a need for continuing joint action of the executive and legislative branches as now provided for under the joint program for improving accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 recognized the coordinate responsibilities of agency management, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller of the Treasury.

troller General, for making continuing improvements in the financial management of Federal Government activities.

Within the executive branch the head of each executive agency is assigned the responsibility by section 113 (a) of the Budget and Accounting Procedures Act of 1950, of establishing and maintaining adequate systems of accounting and internal control in conformity with the principles, standards and related requirements prescribed by the Comptroller General as referred to therein. Added emphasis on getting the job done Government-wide could be very helpful in expediting progress if appropriately carried out. We do not believe, however, that specific legislation is required in order for the Bureau of the Budget to undertake action of the character provided for in the legislation. Moreover, we question the desirability of specifically providing for an organizational unit and for the position of Assistant Director for Accounting by statute. It is our observation that such statutes are likely to become outmoded when organizational provisions are included therein.

The new section 121 of the Budget and Accounting Procedures Act of 1950, also proposed by section 2 (c) of the bill, would provide for the appointment of a comptroller in each executive agency. We endorse the emphasis placed on the financial management function in each executive agency which is the apparent objective of the proposed section 121. However, because of the wide divergence in size, functions, and existing organizational patterns in the many executive agencies, it is doubted that any single pattern of organization will fit all agencies.

Section 3: The simplification of the allotment system for allocating funds is sound and most desirable. The existing unwarranted subdivision of funds is one of the greatest deterrents to improved financial management. We believe that administrators may be willing to forego the type of control associated with many present allotment systems when accounting systems have been installed to provide costs as a basis of operating control. Better programing tied in with improved accounting through the development of budgets based on costs, as proposed by this bill, should serve to answer this problem.

Section 4: This section would require each executive agency to maintain a single account under each appropriation title or fund. We endorse the objective of this proposal but feel that it should be adopted for only appropriations or funds which are stated on an accrued expenditure basis. We strongly favor the use of two accounts where such accounts are not stated on an accrued expenditure basis.

Section 5: This section would provide for a joint study by the Bureau of the Budget and the General Accounting Office relating to accounting and internal auditing. Much has been accomplished in these areas in the past by the General Accounting Office both on its own and under the joint accounting improvement program with the Bureau of the Budget and the Secretary of the Treasury. This work is carried on as a regular part of our comprehensive audit program and in the discharge of our accounting systems responsibilities. We expect to continue these studies and investigations. The results of these efforts are made available to the Congress through our regular reporting processes, but we would be pleased to cooperate with the Congress in any special effort having as its objective the improvement of accounting and internal auditing.

S. 2369 and S. 2480 are identical bills designed to implement recommendations Nos. 10, 11 and 12 of the budget and accounting report of the Hoover Commission. The objectives and most of the provisions are identical with sections 120 and 121 of S. 3199 which were covered in our discussion of that bill. S. 2369 and S. 2480 would provide for the Assistant Director for Accounting to be appointed by the President, by and with the advice and consent of the Senate. These two bills also would provide by statute the compensation of the comptroller to be appointed by the head of each executive agency. As stated before, although we agree with the objectives sought, we doubt the desirability of this legislation for the reasons cited earlier.

Mr. BRASFIELD. We appreciate the opportunity to appear before you to discuss S. 3199, which is designed to implement certain of the recommendations contained in the budget and accounting report of the Hoover Commission.

We regard S. 3199 as basic legislation designed primarily to set forth general policies and objectives. Most of these policies and objectives would be put into practice under rules and procedures to be developed by the Bureau of the Budget and, in some cases, by the Comptroller General.

In other words, the bill would prescribe no hard and fast procedures, and the practical aspects would need to be worked out in collaboration with the executive agencies in the same general manner as other similar provisions of law are now applied.

Moreover, there must necessarily be an evolutionary approach to the attainment of the objectives contemplated by the bill because not all agencies now have the necessary tools in the form of systems of programing, budgeting, and accounting that would be required.

It is believed, however, that a statement of objectives of the character contained in the bill would do much to hasten the development of such working tools.

That, perhaps, is the important aspect of the legislation. In the parts of the bill that I will touch on briefly——

Senator COTTON. Mr. Chairman, could I be permitted to interrupt the witness for 1 second?

Senator THURMOND. Yes.

Senator COTTON. Would you mind?

Mr. BRASFIELD. I would be glad to have you do so.

Senator COTTON. Before you go into the details, your summary of the necessity and the impact of this legislation is not quite clear to me. I understand you to say, as Mr. Finan said, that the reforms or the changes contemplated in this bill that could be done without congressional action were being done to a certain extent, but that the passage of this bill would set up a general statement of objectives and would also give you certain working tools that you did not have before.

What do you mean by that last statement?

Mr. BRASFIELD. I meant to indicate this, sir, that knowing that this is the direction in which Congress wants to proceed, it will cause agencies to get busy and improve their accounting system to provide the framework and the base on which good cost budgeting and the things that go with it can come much more promptly.

I might illustrate that, for example, sir, in this way:

About a year and a half ago, the Appropriations Committee of the Senate indicated interest in real property, and provided for the committee to get together a report on it. The stimulus of that interest has done more to get accounting for property on the books than any other single thing I know.

Senator COTTON. You mean that until Congress or its committees begin to show a determined and active interest in a certain reform in our fiscal methods, it is difficult for the Bureau of the Budget and the General Accounting Office to bring about those reforms because it is difficult for them to get the prompt and enthusiastic cooperation of other departments? Is that a just statement?

Mr. BRASFIELD. I would add to that in this way, sir, if I may, that it depends on the department. In some cases you do not need that kind of stimulus. In others you need it very much.

Senator THURMOND. Senator Cotton, excuse me just a minute. Would you mind taking the chair for about 10 minutes? I have been called to my office.

Thank you.

Senator COTTON (presiding). I do not want to delay your testimony, but I just cannot help but wonder, if this is so good, why it has not been done before, and, if it has been the desire of the Bureau

of the Budget, the Accounting Office, and the fiscal agencies to do it, why it is necessary that Congress act, and what would be the significance of Congress' action. I want to understand clearly. Please understand me. I was not criticizing, but I was just trying to understand clearly the necessity and the impact of congressional action.

Mr. BRASFIELD. I would sum that up, sir, in this way: that we are moving ahead with these things. We have made substantial progress in some areas. Making it a part of the Budget process, for example, in the case of cost budgeting, and putting it in the Budget document as opposed to putting it in the justification material will add a great deal of stimulus.

Also, as it is now with the present budgeting practices, there is liable to be the feeling on the part of the agencies of an element of duplication on presenting the Budget on both the cost and an obligation basis, whereas, if they know that the Congress wants them on a cost basis, it will greatly stimulate that activity. That in turn will make them want to have the kind of accounting that will support those cost budgets.

In other words, it is a chain reaction proposition. It will add a great deal of strength to the effort.

Senator COTTON. In other words, this bill amounts to a mandate to the agencies to do something that they already had the power to do?

Mr. BRASFIELD. That is right.

Senator COTTON. Excuse me for interrupting. Go ahead, please.

Mr. BRASFIELD. There is another aspect that I will come to in a few minutes that I think may tie it together with congressional action more strongly, too.

Just to dwell briefly on the cost budget provisions, we think the important advantages in the use of cost data are briefly these: That cost data, based on man-days worked, materials used, and other physical measurements of that sort, can be directly related to work that is accomplished in prior periods, and offers a basis for comparison with the present work plan.

The cost data can be related to the responsibilities of segments of the organization, and cost budgeting permits the maximum opportunity for the exercise of management initiative in that it permits the agencies to get away from as great a tendency toward rigid fund control, which in turn is one of the most deadening influences that we have in endeavoring to get better management through the use of accounting as opposed to approaching the problem totally through the question of fund control.

There is one other facet to this that we feel is important, and perhaps so that there will be no misunderstanding of what our interpretation of cost-based budgets is, I would like to introduce this thought:

In using the term "cost-based budgets," we understand it to have equal application to capital acquisitions and construction as it does to day-to-day operations. For example, a cost-based budget for a procurement activity would relate to the cost of the items being procured or the cost of producing an article or service. Cost budgeting need not and should not be restricted to consumption activities. However, in considering consumption activities, there is obviously a limit to which the concept can be carried and still have a practical value.

For example, careful consideration would need to be given to the

extent to which the inclusion of depreciation as a cost would serve a useful purpose in the presentation of the Budget to Congress.

This is particularly true with respect to the activities of the Department of Defense. The value and utility of cost-based budgets are certainly not dependent upon the application of depreciation, and particularly to military hardware. I make that as a point of clarification.

In coming to the question of the need for congressional action, perhaps our views are somewhat different from those of other witnesses, in that we believe that the impetus to furnish cost data to Congress would be greatly enhanced by teaming up the cost-based budget with the proposal for stating appropriations on an accrued expenditure basis as proposed in recommendation No. 7 of the Hoover Commission Report on Budgeting and Accounting.

We think this would provide the best vehicle for improved correlation of programing, budgeting and accounting. We strongly recommend the inclusion in this bill of further amendments to provide for stating appropriations on an accrued expenditure basis.

Now, the question has been raised in previous testimony as to whether we were ready for that or not. We do not believe you will ever be ready at one time to sweep across the board. It is the kind of reform that should be taken item by item, and we think the appropriate way to do that is to put the idea in legislation, and then have it implemented as the agencies are ready for it, by the Bureau of the Budget, as other improvements are put into effect.

Senator COTTON. Now, you are referring to recommendation No. 7 of the Hoover Commission, which is that the executive budget and congressional appropriation be in terms of estimated annual accrued expenditures, namely, charges for the cost of good and services estimated to be received?

Mr. BRASFIELD. That is right, sir.

Senator COTTON. Now, that recommendation is not at present incorporated in this bill in its present form; right?

Mr. BRASFIELD. That is right, sir.

Senator COTTON. And it is your suggestion that this bill ought to be amended to include that recommendation?

Mr. BRASFIELD. That is right, sir. We think it will give strength and life to the other recommendations in the bill.

Senator COTTON. Now, you indicate first that perhaps some other agencies do not agree with you on this point?

Mr. BRASFIELD. We have in our testimony, as contrasted with those that you have heard ahead of us, expressed more enthusiasm for going ahead immediately with that provision than other witnesses.

Senator COTTON. You have also said that if this were included in the bill, you would not expect that it could be implemented overnight?

Mr. BRASFIELD. That is right.

Senator COTTON. It would take a little time?

Mr. BRASFIELD. That is right.

Senator COTTON. But it will be implemented and put into effect much more rapidly, if it goes into this bill; right?

Mr. BRASFIELD. That is right, sir.

Senator COTTON. Now, would you in ordinary terms for a layman tell us, sir, so that we can understand just what this implies, if you have any idea of what we would say?

Mr. BRASFIELD. I will address myself first to the change it would make in the character of the appropriation.

Senator COTTON. You have not put the amendment in?

Mr. SCULL. No, sir. It is not in the bill.

Senator COTTON. Is it in the record?

Mr. SCULL. No, sir. To clarify this, Mr. Brasfield, you are proposing that such an amendment be incorporated in the bill, are you not?

Mr. BRASFIELD. That is right, sir.

Mr. SCULL. That amendment has not been presented by the General Accounting Office to the staff of this subcommittee, has it?

Mr. BRASFIELD. That is right.

Mr. SCULL. Would the GAO prepare such an amendment and submit it to the subcommittee for its consideration?

(The amendment, to which reference is made above is incorporated in S. 3897, introduced May 21, 1956, by Senators Kennedy, Payne, et al., which supersedes S. 3199.)

Mr. BRASFIELD. We will be happy to.

Senator COTTON. But you have not now?

Mr. BRASFIELD. We have not, sir.

Senator COTTON. All right. Go ahead with your answer.

Mr. BRASFIELD. In discussing the amendments for the accrued-expenditure appropriations, there are both tangible and intangible advantages. First, the annual budget surplus or deficit is now determined on the basis of expenditures so that we now appropriate on one basis and determine the surplus or deficit on a different basis, so that you can never determine at the time appropriations are passed whether or not the budget has in fact been balanced by those appropriations.

It would establish a direct correlation between annual appropriations and expenditures. It would also vest in the Congress a much greater opportunity to control the level of operations during a particular budget year. This would mean the elimination of the vast carry-over balances now available for expenditure at the direction of the executive agencies.

And that perhaps is the most significant change on the one basis of appropriation as opposed to the other.

The present situation concerning available balances stems from the fact that congressional control, through appropriation authorizations and Budget Bureau control through apportionments, are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

In the one case the process is based upon the authority to obligate. The proposed change to accrued expenditure appropriations would be based upon the estimate of goods and services to be received. In other words, it takes the lead time out of the appropriation of the current year.

Senator COTTON. The other day when we were considering another bill, Senator Symington kept using the illustration of fans. You may remember that.

Mr. BRASFIELD. Yes, sir.

Senator COTTON. I do not know why he should, during this weather. But suppose a department has an appropriation to buy and install fans in the appropriation for the fiscal year. Now, tell me, using that illustration, when you say that you are appropriating on one

method and then calculating your deficit on another—tell me how it would work with that one item of supply.

Mr. BRASFIELD. Let us assume first that the fans could be procured and installed in the year in which the appropriation applied, this current fiscal year. Then there would be no difference in one basis as opposed to the other. But let us suppose a second set of circumstances where the fans must be ordered at least a year ahead. Then the proposed plan would work like this:

The department would come to the Congress and say that for this current year we have this work plan, which would not include the fans, but we also intend to install fans next year, and we would like the authority to purchase the fans. The authority to pay for the fans would come in the next appropriation, and at that time you would know whether the fans are going to be delivered in that year, and would know more precisely exactly what was to be done with the fans.

If you stretch that out for a long lead time program, you constantly are faced with the lack of preciseness that plans pitched forward 4 or 5 years must necessarily have, and this would bring it down more to a common denominator in terms of a program to be carried out in the immediate year ahead.

Senator COTTON. And this recommendation No. 7, if it were enacted into law in this bill, would affect that particular illustration how?

Mr. BRASFIELD. First of all, if the fans were procured and installed in the same fiscal year, it would not change it at all. If it took a longer lead time and the agency needed authority to contract in advance, they would ask for that authority, and then when they asked for the appropriation to pay for them, that appropriation would be in the year the fans were going to be delivered.

The agency would know prices; they would know the time they were going to be delivered; they could ask rather precisely for the authority to pay for them.

Senator COTTON. Thank you.

You may proceed.

Mr. BRASFIELD. I think that is the important part of our statement that warrants discussion. The rest of it is pretty much dealing with the specific provisions of the bill, and I would not propose to add further unless you have some questions.

Senator COTTON. Mr. Scull has a question, I believe.

Mr. SCULL. Mr. Chairman I would like to go back to the Hoover Commission estimate of savings. It has been clarified that this was an estimate of the Hoover Commission task force. It is estimated that if all the task force recommendations were effectuated, a savings approaching \$4 billion a year would result.

It appears to have been pretty well established this morning that this bill, S. 3199, as it stands, is more or less what might be termed a congressional mandate to the executive agencies expressing the will of Congress that the agencies implement the provisions in the bill, with possibly a few exceptions which would require legislative action.

If that is so, and if, as the task force points out, some \$4 billion in savings is possible, I would like, Mr. Brasfield, to have your comments first, upon the validity or accuracy of such an estimate of savings; and second, upon the responsibility of the various executive agencies to achieve the estimated savings.

Would you like to speak to those points for a moment?

Mr. BRASFIELD. Yes, sir.

As to the estimate of savings, I think it is a fair statement to say that it could not be specifically documented as to just how those savings would occur.

Nevertheless, that statement does not deny the fact that savings could be achieved.

And the savings would come about by reason—and we are confronted with this problem constantly in dealing with the savings that come about by better management—by the things you do not buy, by knowing what you have got so that you decide that you do not need to buy them. These are not the type of savings that can be documented and added up, and come out with a precise and tangible figure.

Much the same thing is true with respect to the provisions of this bill and the addition of recommendation No. 7. We are dealing here with the things that they would not do if they had better management, and better knowledge of their inventories and a more precise planning of their budget, tied in better to costs.

Specific examples could undoubtedly be developed if such a program is carried forward. But as to summarizing them, you are confronted with the fact that you are trying to estimate the saving resulting from something you would not do if you had enough facts to make a better decision. So in that respect, it would always be speculative.

Mr. SCULL. Would you agree, sir, that it is very difficult to pinpoint savings based upon future change like this?

Mr. BRASFIELD. It would certainly be, and as a matter of fact, it could not be documented in the sense that I spoke of. You cannot document what you do not do nearly as well as you can document those things that you do.

Mr. SCULL. Mr. Brasfield, I would like to go for a moment to the Staff Office of Accounting. I do not believe you have mentioned that in your summary.

Mr. BRASFIELD. I did not mention that.

Mr. SCULL. But that recommendation is covered in your statement.

Mr. BRASFIELD. That is right.

Mr. SCULL. The Hoover Commission recommended the creation of a Staff Office of Accounting in the Bureau of the Budget, to supervise, in accordance with the Comptroller General's directives, as I understand it, the Government's accounting program throughout the executive branch.

Do you favor the creation of such an office?

Mr. BRASFIELD. Our view is that we would like to see the Bureau of the Budget equipped to take a more active part in stimulating accounting improvements in the executive branch. We would like to see them have the opportunity to strengthen both their position and their staff.

Based on the general principle that it is usually undesirable to put organization into legislation, we doubt the desirability of establishing the office by legislation. As far as the objectives are concerned, and the purpose, we think it is consistent with our joint accounting improvement effort, and if properly carried out, it would be helpful.

Mr. SCULL. Well—

Mr. BRASFIELD. We would be glad to work with them under such a program.

Mr. SCULL. Isn't the joint accounting program which is represented by the Bureau, by the General Accounting Office, and Treasury——

Mr. BRASFIELD. That is right.

Mr. SCULL. Isn't that program accomplishing the objectives that the Hoover Commission would like to accomplish through this Staff Office of Accounting in the Bureau of the Budget?

Mr. BRASFIELD. It is working toward those same objectives. How fast we achieve them and the accomplishment of them in some places is a difficult thing to do. In that sense, we would welcome any strength added to that effort by strengthening the position of the Bureau of the Budget.

However, I might add also that there would need to be legislation on recommendation No. 7. The joint accounting program could not accomplish that without legislation.

Mr. SCULL. That is stating expenditures on——

Mr. BRASFIELD. Appropriations on an accrued-expenditure basis.

Mr. SCULL. Stating appropriations on an accrued-expenditure basis?

Mr. BRASFIELD. That is right, which in turn is the key to emphasis behind cost-based budgeting.

Mr. SCULL. I am not quite clear on this point, sir. You would favor the creation of such a Staff Office of Accounting so as to strengthen the joint accounting program?

Mr. BRASFIELD. We would favor a stronger effort on the part of the Bureau of the Budget.

Now, the particular manner in which they carried it out in their organization, we think is more properly their decision. We see nothing incompatible about a Staff Office of Accounting with the objectives that the report provides as a part of the team working under the joint program.

Mr. SCULL. But you do not believe that the Congress should establish it by statute?

Mr. BRASFIELD. We question the desirability of establishing such offices by statute.

Mr. SCULL. As a matter of fact, has not the Director of the Bureau of the Budget now the authority to establish such an office?

Mr. BRASFIELD. I am not sure. We think he could accomplish the objectives of it. Perhaps it may be a question of resources.

Mr. SCULL. I, perhaps, should direct that question to the Bureau of the Budget.

Mr. BRASFIELD. That is right. I think they should comment on that.

Mr. SCULL. I would like to ask another question, Senator Cotton.

Senator COTTON. Yes.

Mr. SCULL. Do not executive agencies have comptrollers now——

Mr. BRASFIELD. Many of them do.

Mr. SCULL (continuing). Or an officer who is performing the functions of a comptroller?

Mr. BRASFIELD. Many of them do. Sometimes he is not known by that name. He might not have exactly or precisely the duties as con-

templated by the recommendation in the Hoover Commission report. He might have other duties and not have all the specific ones mentioned.

MR. SCULL. The Hoover Commission recommends that comptrollers be established in each executive agency.

MR. BRASFIELD. That is right.

MR. SCULL. I cannot recall for the moment whether the Commission recommends that the Congress establish them or that the departments do so by administrative action.

MR. BRASFIELD. The Hoover Commission report does not contain a legislative recommendation, but I am not sure they were intended to be set up that way.

MR. SCULL. I would like to clarify this. Is it correct that at present the President by Executive order or the head of a department could establish such a position of comptroller in an executive agency, should he desire to do so, without legislative action?

MR. BRASFIELD. I would think the answer to that is that he ordinarily can. There may be some particular statutes that describe some organization that would have to be changed for a particular agency.

The generalization is that the answer to your question is, yes, they could, and we think that would be a preferable way to do it.

Senator COTTON. Excuse me.

If you did it that way, would the Comptroller have the authority contemplated by the Hoover Commission in the absence of a willingness on the part of the department head to give him that authority voluntarily?

MR. BRASFIELD. I think the answer to your question is that he would not unless the department head were willing to give it to him. Whether even if he had authority by law he could effectively exercise it if the department head did not cooperate or agree, is still another question.

I would like to point this out, if I may. In the Budget and Accounting Procedures Act of 1950, which is our current charter for the joint accounting program, it places upon the head of each agency the responsibility for developing an accounting system and, in effect, doing the things that we are talking about. That was the first legislation that specifically put that responsibility on the head of the agency. In effect, the law says to the head of the agency, "You have the responsibility to establish an accounting system within the general principles and standards laid down by the Comptroller General. Now you need to take steps that will effectively carry out your responsibilities as head of the agency."

Senator COTTON. But it would be far better for the President of the United States to insist on department heads having comptrollers and cooperating with them than for Congress to try to establish a set of comptrollers in agencies and guard against their being interfered with by the department head, because that would split up the responsibility of the agencies, would it not?

MR. BRASFIELD. I think that is true. It would be much better for Congress to hold the head of the agency responsible.

Senator COTTON. Questions, Senator?

Senator MARTIN. No.

MR. SCULL. A final question, sir.

Mr. Brasfield, as I understand it, to sum up very briefly, the GAO endorses the use of cost-based budgets in agencies?

Mr. BRASFIELD. We do.

Mr. SCULL. GAO endorses the accrual accounting system?

Mr. BRASFIELD. We do.

Mr. SCULL. Throughout the executive agencies?

Mr. BRASFIELD. We do.

Mr. SCULL. And GAO recommends an amendment to provide for stating appropriations on an expenditure basis, which GAO believes is essential to the accomplishment of the first two, cost-based budgets and accrual accounting?

Mr. BRASFIELD. We think it will stimulate them and add greatly to the actual accomplishment of them. We think it needs to be implemented gradually, but we think it would be desirable to lay the foundation in law at this time.

Senator COTTON. When will you have the amendment up to the staff of the subcommittee? When will it be convenient?

Mr. BRASFIELD. We can have it rather shortly.

(The amendment, which reference is made above is incorporated in S. 3897, introduced May 21, 1956, by Senators Kennedy, Payne, et al., which supersedes S. 3199.)

Senator COTTON. That is all. Thank you, Mr. Brasfield.

Mr. BRASFIELD. Thank you.

Senator COTTON. Mr. Finan, in view of these suggestions about recommendation No. 7, would you like to comment on them at this time?

Mr. FINAN. I would be glad to, Mr. Chairman.

**STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR
MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET—
Resumed**

Senator COTTON. You now, in your capacity as Assistant Director of the Bureau of the Budget, are going to comment on the suggested amendment to the bills suggested by Mr. Brasfield?

Mr. FINAN. Yes, sir.

Senator COTTON. Go ahead.

Mr. FINAN. Mr. Chairman, we are completely in accord with the General Accounting Office as to the ultimate objective toward which we are working. We think that if it is properly rooted in modern accounting systems, the time will come when benefits would flow both in an improved capacity on the part of the executive branch to administer the programs of the Government on the one hand, and, on the other, for the Congress effectively to control the budget through placing appropriations on an accrued-expenditure basis.

However, this is a concept which, within the Government, at least, is still relatively new. It is not well understood, as witnessed by some of the testimony before this subcommittee.

There are still relatively few agencies that have the accounting systems which would support this particular approach toward budgeting.

We also agree with the General Accounting Office that the enactment by the Congress of legislation of this kind would certainly provide a fresh stimulus to practically every aspect of our accounting improvement program. We are not prepared, however, at this point

to recommend to the Congress the enactment of legislation that would implement recommendation No. 7 of the Hoover Commission.

I think I can state on behalf of the Director that we would have no objection to such legislation if the Congress desired to enact it, especially along the lines that were suggested by the GAO that it be clearly recognized this would be a gradual process put in step by step, with the Budget Bureau making the determination as to when a particular agency had a system that would properly support this type of approach and would, in fact, approve control as distinct from losing control or diminishing control.

I think I also should add in that connection, in the exercise of authority of that kind, if it were given to the Budget Director, he would exercise it in the closest possible collaboration with the Appropriations Committees of Congress because, after all, the Appropriations Committees handle the budget on behalf of the Congress, and it would not only be improper, but highly undesirable, in our opinion, to lay budgets before the subcommittees of the two Appropriations Committees, which were in a form they did not want—where they wanted a different kind of presentation.

In other words, I think I can sum up our position by saying that we think we will get to the point where we will be asking for this kind of legislation one of these days. As of today, we are not asking for it. We would have no objection to it, provided, as I have said, it were clearly understood it was an authorization that would only be put into effect practically on an appropriation-by-appropriation basis, and over an extended period of time.

Let me illustrate: Today there are in the printed budget only four appropriations that are now set up on a cost basis, where the costs in these cases are reconciled to obligations. We do have agencies that cover somewhere between 35 and 40 different appropriations that are currently presenting justification material to the Budget Bureau on a cost-reconciled-to-obligation basis. And most of those agencies, I believe, are also presenting the same material to the Appropriations Committees. They do it wherever the committee wants it.

We have an additional group of agencies that have now reached the point where they have pretty sound and adequate accrual accounting systems, but they have not reached a stage where they are presenting justification material to the Bureau on a cost-reconciled-to-obligation basis.

In other words, we have got a fairly firm toe-hole on this problem, but not much more than that, and we would not want to give the impression there is such a strong underpinning here that all that is needed is a general agreement to move forward, and a revolution can take place overnight.

Senator COTTON. Is this what you are suggesting, that if anything is incorporated in the present bill on this subject, it should be a declaration of congressional desire and intent rather than a mandatory provision for the installation of the new system?

Mr. FINAN. That is correct, sir.

Senator COTTON. You do not understand how we are going to pass the statute and say, "This is the law, but you need not hurry about obeying it"? In other words, we have to not put it in at all, make a declaration of congressional intent, or make it an item of legislative provision. There are no other alternatives, are there?

Mr. FINAN. The only other alternative, if there is an alternative, is the one described by Mr. Brasfield, that is, where it is described as congressional policy to move toward this objective, but with control machinery built into it, so that we only move when we have got a really solid underpinning for it.

As Mr. Stewart indicated in his testimony before the subcommittee the other day regarding the so-called performance budget, and I think we would agree with him, that what we did there was to attempt to carry out a concept which was not well understood, and before anybody was really ready for it, and in the doing of that, we generated a great deal of objection and criticism which would not have taken place if we had gone about it in, shall we say, a more moderate manner, and only when we really had a solid underpinning and a clear understanding, not only within the executive agencies affected, but within the congressional committees affected, before we tried to move ahead.

Senator COTTON. Does that mean that your feeling is that an attempt to incorporate this amendment in this bill at this time might do more harm than good?

Mr. FINAN. I am not sure that I would describe my position that way. If it gave the impression that we were very close to what, I think everybody would agree, would be a revolutionary overhaul of our whole budget process, I think that would be a mistake, because we are not.

Just to illustrate, you have to do first things first, and we are endorsing, and strongly endorse, the policy of getting property accounting on a monetary basis and integrated into the basic accounting of the agency. You cannot even move toward a cost budget or an accrual accounting system until you have done that, and all of those things have to be done before you can talk seriously about appropriating on an expenditure basis. And I think perhaps it is not as exaggeration to say that in the field of property accounting, generally speaking, the executive branch is weaker perhaps than in any other single accounting or budgeting field that you might mention.

Senator COTTON. Of course, we haven't it in the form of a proposed amendment, but assuming that the amendment as submitted by the General Accounting Office was a declaration of Congressional policy and a setting up of the necessary machinery to implement that policy, as and when it could be made practical to do so, would your Bureau be for or against that amendment?

Mr. FINAN. We would have no objection to such an amendment, Mr. Chairman. I think I might also add that we would want to see that there were included in it adequate controls over the process of committing the Government to spend.

You will understand that when you have reached the point of expenditure, the commitment has been made. Somebody issued an order months or years ago, or somebody signed a contract.

Currently, the so-called obligation appropriation puts the point of control there. We would want some substitute method of control included at that point, even though we had switched the appropriation control over to the expenditure point, because you—

Senator COTTON. Would you be willing to collaborate with GAO in the drafting of such a bill?

Mr. FINAN. We will be delighted to see what we could do, yes, sir.

Senator COTTON. Have you any comments on that, Mr. Brasfield?

Mr. BRASFIELD. We would be happy to collaborate with them on it.

Senator COTTON. Senator Martin?

Senator MARTIN. I do not care to ask anything.

Senator COTTON. Mr. Scull?

Mr. SCULL. Mr. Finan, I would like to have your views on the creation of a Staff Office of Accounting, very briefly, if you would give them to us.

Mr. FINAN. I can cover that very briefly, Mr. Scull. Such an office has now been established in the Budget Bureau.

Mr. SCULL. It is known as the Accounting Group?

Mr. FINAN. No. It actually has not as yet been designated as the Staff Office of Accounting. But you recall, the significant point in the Hoover Commission recommendation was that an Assistant Director of the Bureau be placed directly in charge of our accounting activities. As of about a week ago, the Director made such a change, and Assistant Director Rappaport, who is an accountant of considerable experience and standing, and who is an Assistant Director of the Budget Bureau, is now in charge of our Accounting Group and our accounting program.

Mr. SCULL. We have, then, in the Bureau of the Budget what amounts to a Staff Office of Accounting, now?

Mr. FINAN. That is right.

Mr. SCULL. Does that officer discharge the duties that the Hoover Commission recommended that such a Staff Office of Accounting should discharge, in supervising accounting through the executive branch?

Mr. FINAN. Substantially so. I am not sure that the word "supervision" is entirely appropriate.

There was one recommendation of the Hoover Commission which in my judgment was generally misunderstood. If the Hoover Commission meant what I am convinced in my own mind that they meant, then he also has that responsibility, and that is for assisting agencies to locate and employ topflight personnel for their top financial management jobs. That has been interpreted by some as meaning that we would exercise some kind of control over the selection. Either we would dictate the employment or we would have a veto authority over it. We think either arrangement would be totally inappropriate.

To the extent that we are talking about providing assistance, which I am convinced is what the Commission meant, that responsibility is also included.

Mr. SCULL. That would be an infringement upon the responsibility of the Department heads; would it not?

Mr. FINAN. Of course.

Mr. SCULL. That is all, Mr. Chairman.

Senator COTTON. I just want to get one thing clear in my own mind. It is your feeling that recommendation No. 7 of the Hoover Commission is desirable as soon as it can be reasonably and practicably done; is that right?

Mr. FINAN. As soon as we have solid footing for it, and as soon as it is widely understood and accepted, not only within the executive branch, but within the Congress.

Senator COTTON. But you feel it is desirable?

Mr. FINAN. Yes, sir.

Senator COTTON. And is it not likely to come about more speedily if some legislation is passed that puts Congress, which includes its Appropriations Committees, squarely behind it as a policy, than it will if it is left to come about otherwise?

Mr. FINAN. I think there is no doubt about that, Mr. Chairman. What I would be concerned about is that in an effort to move on this before we are sure it is fully understood and accepted, a controversy is generated and we get a flat congressional rejection—we then might be worse off than we are today with the Congress, shall we say, in a somewhat neutral position on the matter.

Senator COTTON. I see. Thank you.

Mr. Heffelfinger, the Fiscal Assistant Secretary of the Treasury.

Mr. HEFFELFINGER. Good morning, Mr. Chairman.

Senator COTTON. We appreciate your being with us, Mr. Heffelfinger. Is it your desire to read your statement in full and then discuss it, or would you prefer to put the statement in the record and summarize it and discuss it?

Mr. HEFFELFINGER. It is a very short statement. I would be glad to read it, and then submit it for the record, sir.

I might say that I have with me, Mr. Gilbert L. Cake, who is our associate commissioner of accounting.

Senator COTTON. We are glad to have him with us. We will be glad to have you proceed.

STATEMENT OF WILLIAM T. HEFFELFINGER, FISCAL ASSISTANT SECRETARY OF THE TREASURY; ACCOMPANIED BY GILBERT L. CAKE, ASSOCIATE COMMISSIONER, BUREAU OF ACCOUNTS, DEPARTMENT OF THE TREASURY

Mr. HEFFELFINGER. These are the views of the Treasury Department on S. 3199, a bill to improve governmental budgeting and accounting methods and procedures and for other purposes, contained in a letter dated March 21, 1956, from the Acting Secretary of the Treasury to the subcommittee.

I will summarize the letter:

The bill would put into effect most of the recommendations on budgeting and accounting made by the Commission on Organization of the Executive Branch of the Government in its report to the Congress dated June 1955. In replying recently to a request of the House Committee on Government Operations for comments on the Commission's report, the committee was told that the Treasury is not in complete agreement with the recommendation for organizing the accounting function but that it is in favor of the specific suggestions for simplifying and improving accounting procedures.

These views are elaborated in more detail in the statement appended to the letter, as follows:

Sections 1 (a) and 2 (c) of the bill would carry out recommendations Nos. 10, 11, 12 and 22 of the Commission for the establishment of an Office of Accounting in the Bureau of the Budget, the establishment of the position of comptroller in the principal agencies of the Government, and the preparation by the Bureau of the Budget of certain overall financial reports.

From the standpoint of sound organization and desirable checks and balances, the executive branch should have full control over the type of accounting systems it deems necessary for management purposes. Moreover, the audit func-

tion of the Comptroller General of the United States is weakened by the fact that he must, by law, prescribe accounting systems which he is required to audit. Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch.

I would like to say at this point, Mr. Chairman, that this is a basic organizational problem. We have no objection to the present arrangement under which the agencies are responsible for their accounting systems, subject to the prescription of standards by the General Accounting Office. That arrangement has been working well under the joint accounting program. We feel that we have accomplished great strides in improving Government accounting under the present setup.

We do fear that if Congress should legislate a division of those responsibilities, placing certain responsibilities in the Bureau of the Budget and leaving other responsibilities to the Comptroller, it might be difficult for the agencies to know where they are responsible in their accounting, to the Bureau of the Budget or to the Comptroller General. Rather than see a transfer and splitup of those functions made, we feel that it should all go to the Executive or remain where it is. The statement continues:

The Treasury does not believe it is necessary or desirable to require the establishment of the position of comptroller in all agencies regardless of the need or circumstances which might prevail in a particular agency. Such action would be a retrogressive step from the progress already made in the direction of making the heads of agencies responsible for proper internal organization and alignment of functions. For example, Reorganization Plan No. 26 of 1950 places such responsibility on the Secretary of the Treasury. Therefore, if the position of comptroller should be considered necessary or desirable, legislation would not be necessary to establish the position and functions.

On the matter of financial reporting, it is not clear just what is meant by comprehensive reports, other than purely fiscal reports which the bill would require the Director of the Bureau of the Budget to prepare. By virtue of the nature of the Treasury's operations as the financial department of the Government, it is the source of a great deal of fiscal data and the focal point of much of the Government's accounting. Therefore, it is not only logical but practical for the Treasury to be the operating center of accounting and financial reporting as provided for in the Budget and Accounting Procedures Act of 1950. In this connection, the Treasury now prepares various central reports pertaining to receipts and expenditures, the status of appropriations, the public debt, foreign currencies, assets and liabilities of executive agencies, long-range commitments and contingencies, and other reports having to do with the Government's finances from an overall standpoint. There appears to be no real necessity or advantage to make the Bureau of the Budget, which is essentially a staff agency of the President, an operating agency instead of the Treasury in this respect.

It appears that the duties imposed on the Assistant Director for Accounting (in the Bureau of the Budget) by section 2 (c) would overlap the present statutory duties and authority of the Comptroller General as specified in the Budget and Accounting Act, 1921, the Federal Property and Administrative Services Act, 1949, the Post Office Financial Control Act of 1950, and the Budget and Accounting Procedures Act of 1950. Also, as the bill is written, section 1 (a) would overlap the statutory duties of the Secretary of the Treasury regarding financial reporting as specified in the Budget and Accounting Procedures Act of 1950 and other laws. It seems inevitable that enactment of the bill, without clearing up the question of a realignment of authority and responsibilities, would lead to uncertainties and disputes due to jurisdictional conflicts—particularly where the General Accounting Office as an agent of Congress is concerned. The Treasury believes that the various executive departments and agencies should not be placed in the position of not knowing precisely to what central authority they must look in the matter of accounting and reporting requirements.

In addition to these fundamental reservations, the Treasury is opposed to those provisions of section 2 (c) which would require the Assistant Director for Accounting to: (a) Set schedules for performance of functions in the administrative agencies without confining the functions involved to accounting and report-

ing; and (b) to assist actively in the selection, training and retention of capable personnel in the administrative agencies, which is viewed as an infringement on the responsibilities of such agencies.

The Treasury is in general agreement with the objectives of sections 1. (b), 2 (a), 2 (b) and 3 of the bill, which are to increase congressional and executive control over expenditures. These sections would carry out eight recommendations of the Commission, which in essence are:

Recommendation No. 2—Agencies should make annual operating reports to the Bureau of the Budget which in turn should report to the President on performance for the executive branch as a whole.

Recommendation No. 3—Cost-based operating budgets, supplemented by performance reports, should be used internally by agencies.

Recommendation No. 4—A performance type Executive budget should continue to be used and should be adequately supported by program costs and accomplishment.

Recommendation No. 5—Agencies should synchronize their organization structures, budget classifications and accounting systems.

Recommendation No. 6—Agency budgets should be formulated and administered on a cost basis.

Recommendation No. 13—The allotment system should be greatly simplified.

Recommendation No. 14—Accounting, budgeting and financial reporting should be on an accrual basis.

Recommendation No. 16—Agencies should install monetary property accounting.

Section 1 (c) of the bill would carry out recommendation No. 1 (b) of the Commission that qualified employees of the Bureau of the Budget be placed in important agencies as working contacts. The Bureau of the Budget already has close working relationships on budgetary matters with the executive agencies and the Treasury doubts that the advantages of implementing this recommendation would warrant the added expense.

Section 4 of the bill would carry out recommendation No. 17 of the Commission that the accounting for the payment of old claims, under each appropriation title, be simplified. Two bills, S. 3362 and H. R. 9593, have been introduced in the Congress to implement not only this recommendation but also recommendation No. 18 of the Commission to simplify the payment of certain claims. The Treasury collaborated with the Bureau of the Budget and the General Accounting Office in the drafting of such legislation.

Section 5 (a) (1) of the bill would give effect to recommendation No. 20 of the Commission that the Bureau of the Budget and the General Accounting Office make a study with the view to eliminating duplication of accounting in the Treasury and between the Treasury and other agencies. The Treasury is, of course, in favor of the elimination of duplication. The joint accounting program is dedicated to the elimination of duplication in accounting, and related paperwork and procedures, wherever it may exist in or between agencies of the Government, including the Treasury Department. Major accomplishments under this policy are described in the annual reports of progress of the joint program. Hence, the Treasury does not believe that additional studies, as recommended by the Commission, are necessary.

Section 5 (a) (2) of the bill would carry out recommendation No. 25 of the Commission that the Bureau of the Budget and the General Accounting Office make a study to determine the adequacy of internal auditing in agencies. The Treasury would have no objection to such a study.

That, Mr. Chairman, embodies the Treasury's views, and I submit this for the record.

Senator CORRON. Thank you, Mr. Secretary.

Referring to the last sentence in the second paragraph of your prepared statement—

Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch—

it is not quite clear to me what you mean by that statement. There is nothing in the present bill that deals with that. Is it your suggestion that the bill should do that?

Mr. HEFFELFINGER. Well, we felt that the bill probably has some areas which are not clear in the setting up in the Bureau of the Budget of an Assistant Director to exercise functions in the accounting field, and we thought that might give rise to the difficulty of interpreting his sphere of jurisdiction and the Accounting Office's sphere of jurisdiction.

Senator COTTON. Would you indicate what sections of the bill, what provisions raise that problem?

Mr. HEFFELFINGER (reading):

There is hereby established—

this is section 2 (c) on page 5 of the bill—

a Staff Office of Accounting.

SEC. 120. (a) There is hereby established in the Bureau of the Budget, under the supervision of the Director thereof, a Staff Office of Accounting, the head of which shall be the Assistant Director of Accounting, to be appointed by the President, and to receive compensation at the rate of \$ per annum.

Then it goes on to follow:

It shall be the duty of the Assistant Director for Accounting—(1) to develop and promulgate an overall plan for accounting and reporting by the various executive agencies which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General of the United States pursuant to section 112 of this part; (2) to expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies which are consistent with such overall plan; (3) to set reasonable and definite schedules for the performance of the functions of such agencies and to watch and report on their progress; (4) to stimulate the building of competent accounting and auditing organizations in such agencies and to assist actively in the selection, training, and retention of capable personnel; and (5) to report to the Director of the Bureau of the Budget at least once each year, and at such other times as the Director may require with respect to the status of accounting in each of the executive agencies.

Senator COTTON. Mr. Scull, will you explore this matter briefly?

Mr. SCULL. Yes.

Mr. SCULL. Mr. Heffelfinger, the Treasury objects to the creation of a Staff Office of Accounting; is that correct, sir?

Mr. HEFFELFINGER. We feel that it may lead to the development of a situation that may be difficult in the years to come, in having two agencies of the Government operating in the field of accounting. We know that we have responsibility in the Comptroller General, and we feel that the present arrangement under which the Bureau of the Budget and the Treasury are working very cooperatively with the General Accounting Office, is working well.

It is necessary in this joint program to have the support of the Bureau of the Budget, and they have been very helpful in their support. If all that is intended is just to write into the legislation that the Bureau of the Budget shall continue their support, that is one thing. But if there is a desire and an effort made to transfer and divide the responsibility, we think that is bad.

Mr. SCULL. To be certain that I understand correctly, I would like to read your statement again:

Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch—

The setting up of a Staff Office of Accounting would not necessarily transfer the present authority of the Comptroller Gen-

eral, but it would certainly increase the responsibility, if not the authority of the Bureau of the Budget, over accounting, would it not?

MR. HEFFELFINGER. That may be where we would run into difficulties. I do not think that the present bill is intended to transfer authority from the Comptroller General. But if the Bureau of the Budget should interpret it as transferring authority, then we get into difficulties. You have two agencies to deal with.

MR. SCULL. Of course, section 2 (c), I believe it is——

MR. HEFFELFINGER. That is right.

MR. SCULL. Section 2 (c) states that this Assistant Director of Accounting shall develop and promulgate an overall plan for accounting which is consistent with the principles, standards, and related requirements prescribed by the Comptroller General.

Would that not leave the authority over the Staff Office of Accounting in the Comptroller General's hands?

MR. HEFFELFINGER. Yes. But it also would give rise to just how far does the authority of the Budget Bureau and how far does the authority of the Comptroller extend.

MR. SCULL. Let me get back to your statement again, Mr. Heffelfinger.

You state that the Treasury believes that the present authority of the Comptroller General over accounting should be transferred to the executive branch?

MR. HEFFELFINGER. If there is any change to be made in the existing situation.

MR. SCULL. In other words, you would relieve the Comptroller General of his present authority over accounting within the executive branch.

MR. HEFFELFINGER. You say, leave him?

MR. SCULL. Relieve him.

MR. HEFFELFINGER. Yes, if the Congress wants to make any changes in the accounting field. That is consistent with the earlier recommendations, I believe, of the Hoover Commission.

MR. SCULL. To whom should the authority go? The Treasury?

MR. HEFFELFINGER. No, we don't advocate that the Treasury have that authority.

MR. SCULL. The Bureau of the Budget?

MR. HEFFELFINGER. To the Bureau of the Budget, the only other agency in the executive branch, yes; we feel it should be in the Comptroller or in the Budget, but it should not be spread between the two with the possibility of conflict of interest.

Senator THURMOND (presiding). Mr. Heffelfinger, wasn't the original idea of setting up the position of the Comptroller General that it should be an arm of the Congress?

MR. HEFFELFINGER. That is right.

Senator THURMOND. In order to serve the Congress?

MR. HEFFELFINGER. That is true, sir.

Senator THURMOND. You are now recommending that that be changed?

MR. HEFFELFINGER. No, sir. We feel that the Comptroller General should audit the agencies, and the agencies have the responsibility of conducting their affairs and be responsible for that, including the accounting systems which are necessary to accomplish that fact. We

feel that the Comptroller General should be free to come in and audit and criticize those systems if they are not proper.

Senator THURMOND. Senator Martin?

Senator MARTIN. No, I have nothing, except this. You think that the present law is better balanced than this suggestion and proposal?

Mr. HEFFELFINGER. That is our point.

Senator THURMOND. Senator Cotton, do you have any more questions?

Senator COTTON. Just a few, Senator.

I wonder this, Mr. Secretary. You have heard the discussion that we have had previously with Mr. Finan and Mr. Brasfield about recommendation No. 7.

Mr. HEFFELFINGER. Yes, sir.

Senator COTTON. Would you care to comment on that?

Mr. HEFFELFINGER. The Treasury is in general agreement with the objectives of that recommendation. We subscribe to the views of the Budget and the General Accounting Office. It is a change that you cannot make overnight. The magnitude of the Government is too big to make an overnight change. We feel it is a long-term program, one that has been going on now for some few years under the joint accounting program, and we have made accomplishments in that direction.

In the final analysis, it is a matter for Congress to determine whether they want to budget and control appropriations on that basis; and with legislation along those lines indicating the desire of Congress to proceed in this direction, which we feel is better control in the long run than we now are getting through the obligating procedures, it might be a long-range advantage to the Congress and the Executive, knowing just what programs are costing.

Senator COTTON. You think that the time has arrived for a declaration of policy by the Congress on this point now? Or do you think—

Mr. HEFFELFINGER. I think that would be desirable, because there has been a great deal of progress made in this direction in a number of agencies.

Now, if Congress is not going to accept this philosophy of budgeting, probably it should indicate it at this point. Nevertheless, for management purposes, it is still a good system to predicate your accounts on.

Senator COTTON. And it would be the recommendation of the Treasury Department to the Congress that this recommendation would be clearly beneficial?

Mr. HEFFELFINGER. We think so.

Senator COTTON. Thank you.

Senator THURMOND. Mr. Scull?

Mr. SCULL. Sir, would you collaborate with the GAO and the Bureau of the Budget in the drafting of such an amendment for the subcommittee?

Mr. HEFFELFINGER. We would be happy to.

(This amendment is incorporated in S. 3897, introduced May 21, 1956, by Senators Kennedy, Payne, et al, which supersedes S. 3199.)

Mr. SHRIVER. Mr. Chairman.

Senator THURMOND. Go ahead, Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. HEFFELFINGER, in connection with this joint accounting improvement program which was referred to a while ago, you knew that the staff and the Senate Government Operations Committee really got that program off the ground several years ago. Now, do you think this legislation would stimulate the activities of that group or prod the agencies into installing accounting and budgeting on an accrual basis, and revising the appropriation structure? Do you think this bill is what is needed to get this new system started?

Mr. HEFFELFINGER. We do not need anything to stimulate this joint group. They are working day and night in this direction, and I think they have made great strides. There are still areas where it is hard to make further progress, and I think some indication from Congress that this is the direction that you approve of would be helpful to the joint program.

Mr. SHRIVER. Do you believe it would be more effective to pass a general bill to overhaul the budget and accounting system than just put something in a report of this subcommittee?

Mr. HEFFELFINGER. That is a determination of the subcommittee, as to whether it should be put in legislation. It would be unfortunate to put it in legislation with rigidity. If it could be put in in some general expression of policy by the Congress rather than with rigid requirements, I think that would be helpful.

Mr. SHRIVER. Do you believe the language in this bill with respect to the maintenance of accounts on accrual basis, this broad general language, is better than to try to spell it out in detail in a bill?

Mr. HEFFELFINGER. I think it would be, yes.

Mr. SHRIVER. Is it your belief that the same thing holds true for preparing a budget on a cost basis?

Mr. HEFFELFINGER. I think so.

As Mr. Finan pointed out, it will take a long period of education to get people accustomed to these new forms of procedures.

Senator COTTON. Are you going into another subject matter now?

Mr. SHRIVER. No; I was going to pursue the same subject a little further.

Senator COTTON. Could I interpolate one suggestion, or a question?

Mr. SHRIVER. Surely, go right ahead, Senator Cotton.

Senator THURMOND. Go ahead.

Senator COTTON. In reply to the question about whether this incorporation of recommendation No. 7 should be incorporated in the act or simply be a recommendation to be incorporated in the report of the committee, it is my understanding from previous testimony—and I am wondering if you will agree—that it is highly important if this recommendation is eventually to work that it be satisfactory to, and have the cooperation of, the Appropriations Committees of the Senate and House and the subcommittees; otherwise, you would meet with innumerable obstacles; is that not correct?

Mr. HEFFELFINGER. That is true, because they are the prime users of the data that is included in the budget which is submitted to the Congress.

Senator COTTON. So if this subcommittee simply incorporated in a report "it is the policy of this subcommittee that it be followed," it would hardly give the assurance to the Bureau of the Budget and the

General Accounting Office and the Treasury and all the fiscal agencies involved, of congressional intent that we would have if an act passed presumably upon which all the members of the Appropriations Committee would have a full opportunity to collaborate?

Mr. HEFFELFINGER. That is true.

Mr. SHRIVER. That is right, Senator Cotton.

Thank you, Mr. Chairman.

Senator THURMOND. Thank you very much, Mr. Heffelfinger.

The subcommittee will now recess until 10 o'clock tomorrow morning when it will resume hearings in room 357, Senate Office Building.

Mr. HEFFELFINGER. Thank you, sir.

(Letter, March 21, 1956, from Hon. W. Randolph Burgess, Acting Secretary of the Treasury, to Hon. John F. Kennedy, and statement summarized by Mr. Heffelfinger, follows:)

TREASURY DEPARTMENT,
Washington, March 21, 1956.

Hon. JOHN F. KENNEDY,

*Chairman, Subcommittee on Reorganization,
United States Senate, Washington, D. C.*

MY DEAR MR. CHAIRMAN: This is in reply to your letter of February 21 requesting the Department's views on S. 3199, a bill to improve governmental budgeting and accounting methods and procedures and for other purposes.

The bill would put into effect most of the recommendations on budgeting and accounting made by the Commission on Organization of the Executive Branch of the Government in its report to the Congress dated June 1955. In replying recently to a request of the House Committee on Government Operations for comments on the Commission's report, the committee was told that the Treasury is not in complete agreement with the recommendation for organizing the accounting function but that it is in favor of the specific suggestions for simplifying and improving accounting procedures.

The Treasury's views on the provisions of S. 3199 are furnished in the attached memorandum.

It has not been possible to obtain the customary Bureau of the Budget clearance prior to the submission of this report.

Very truly yours,

W. RANDOLPH BURGESS,
Acting Secretary of the Treasury.

VIEWS OF THE TREASURY DEPARTMENT ON S. 3199, A BILL TO IMPROVE GOVERNMENTAL BUDGETING AND ACCOUNTING METHODS AND PROCEDURES AND FOR OTHER PURPOSES

Sections 1 (a) and 2 (c) of the bill would carry out recommendations Nos. 10, 11, 12, and 22 of the Commission for the establishment of an office of accounting in the Bureau of the Budget, the establishment of the position of comptroller in the principal agencies of the Government, and the preparation by the Bureau of the Budget of certain overall financial reports.

From the standpoint of sound organization and desirable checks and balances, the executive branch should have full control over the type of accounting systems it deems necessary for management purposes. Moreover, the audit function of the Comptroller General of the United States is weakened by the fact that he must, by law, prescribe accounting systems which he is required to audit. Hence, the Treasury feels that the present authority of the Comptroller General over accounting should be transferred by law to the executive branch.

The Treasury does not believe it is necessary or desirable to require the establishment of the position of comptroller in all agencies regardless of the need or circumstances which might prevail in a particular agency. Such action would be a retrogressive step from the progress already made in the direction of making the heads of agencies responsible for proper internal organization and alinement of functions. For example, Reorganization Plan No. 26 of 1950 places such responsibility on the Secretary of the Treasury. Therefore, if the position of comptroller should be considered necessary or desirable, legislation would not be necessary to establish the position and functions.

On the matter of financial reporting, it is not clear just what is meant by "comprehensive reports, other than purely fiscal reports" which the bill would require the Director of the Bureau of the Budget to prepare. By virtue of the nature of the Treasury's operations as the financial department of the Government, it is the source of a great deal of fiscal data and the focal point of much of the Government's accounting. Therefore, it is not only logical but practical for the Treasury to be the operating center of accounting and financial reporting as provided for in the Budget and Accounting Procedures Act of 1950. In this connection, the Treasury now prepares various central reports pertaining to receipts and expenditures, the status of appropriations, the public debt, foreign currencies, assets and liabilities of executive agencies, long-range commitments and contingencies, and other reports having to do with the Government's finances from an overall standpoint. There appears to be no real necessity or advantage to make the Bureau of the Budget, which is essentially a staff agency of the President, an operating agency instead of the Treasury in this respect.

It appears that the duties imposed on the Assistant Director for Accounting (in the Bureau of the Budget) by section 2 (c) would overlap the present statutory duties and authority of the Comptroller General as specified in the Budget and Accounting Act, 1921, Federal Property and Administrative Services Act, 1949, Post Office Financial Control Act of 1950, and Budget and Accounting Procedures Act of 1950. Also, as the bill is written, section 1 (a) would overlap the statutory duties of the Secretary of the Treasury regarding financial reporting as specified in the Budget and Accounting Procedures Act of 1950 and other laws. It seems inevitable that enactment of the bill, without clearing up the question of a realignment of authority and responsibilities, would lead to uncertainties and disputes due to jurisdictional conflicts—particularly where the General Accounting Office as an agent of Congress is concerned. The Treasury believes that the various executive departments and agencies should not be placed in the position of not knowing precisely to what central authority they must look in the matter of accounting and reporting requirements.

In addition to these fundamental reservations, the Treasury is opposed to those provisions of section 2 (c) which would require the Assistant Director for Accounting to: (a) set schedules for performance of functions in the administrative agencies without confining the functions involved to accounting and reporting; and (b) to assist actively in the selection, training and retention of capable personnel in the administrative agencies, which is viewed as an infringement on the responsibilities of such agencies.

The Treasury is in general agreement with the objectives of sections 1 (b), 2 (b), and 3 of the bill, which are to increase congressional and executive control over expenditures. These sections would carry out eight recommendations which in essence are:

Recommendation No. 2

Agencies should make annual operating reports to the Bureau of the Budget which in turn should report to the President on performance for the executive branch as a whole.

Recommendation No. 3

Cost based operating budgets, supplemented by performance reports, should be used internally by agencies.

Recommendation No. 4

A performance-type executive budget should continue to be used and should be adequately supported by program costs and accomplishment.

Recommendation No. 5

Agencies should synchronize their organization structures, budget classifications and accounting systems.

Recommendation No. 6

Agency budgets should be formulated and administered on a cost basis.

Recommendation No. 13

The allotment system should be greatly simplified.

Recommendation No. 14

Accounting, budgeting, and financial reporting should be on an accrual basis.

Recommendation No. 16

Agencies should install monetary property accounting.

Section 1 (c) of the bill would carry out recommendation No. 1 (b) of the Commission that qualified employees of the Bureau of the Budget be placed in important agencies as working contacts. The Bureau of the Budget already has close working relationships on budgetary matters with the executive agencies and the Treasury doubts that the advantages of implementing this recommendation would warrant the added expense.

Section 4 of the bill would carry out recommendation No. 17 of the Commission that the accounting for the payment of old claims, under each appropriation title, be simplified. Two bills, S. 3362 and H. R. 9593, have been introduced in the Congress to implement not only this recommendation but also recommendation No. 18 of the Commission to simplify the payment of certified claims. The Treasury collaborated with the Bureau of the Budget and the General Accounting Office in the drafting of such legislation.

Section 5 (a) (1) of the bill would give effect to recommendation No. 20 of the Commission that the Bureau of the Budget and the General Accounting Office make a study with the view to eliminating duplication of accounting in the Treasury and between the Treasury and other agencies. The Treasury is, of course, in favor of the elimination of duplication. The joint accounting program is dedicated to the elimination of duplication in accounting, and related paperwork and procedures, wherever it may exist in or between agencies of the Government, including the Treasury Department. Major accomplishments under this policy are described in the annual reports of progress of the joint program. Hence, the Treasury does not believe that additional studies, as recommended by the Commission, are necessary.

Section 5 (a) (2) of the bill would carry out recommendation No. 25 of the Commission that the Bureau of the Budget and the General Accounting Office make a study to determine the adequacy of internal auditing in agencies. The Treasury would have no objection to such a study.

(Whereupon, at 11:25 a. m., the subcommittee recessed to reconvene at 10 a. m., Tuesday, March 27, 1956.)

BUDGETING AND ACCOUNTING

TUESDAY, MARCH 27, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON REORGANIZATION,
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10:10 a. m., in room 357, Senate Office Building, Washington, D. C., Senator Stuart Symington, presiding.

Present: Senators John F. Kennedy, chairman, subcommittee, Democrat, Massachusetts; Stuart Symington, Democrat, Missouri; Norris Cotton, Republican, New Hampshire; Thomas E. Martin, Republican, Iowa.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator SYMINGTON. The subcommittee will come to order.

At the request of the chairman during his absence I will chair the meeting. We will resume hearings on S. 3199, to implement the Hoover Commission Recommendations on Budgeting and Accounting.

The first witness today will be the Honorable W. J. McNeil, Assistant Secretary, Department of Defense.

I welcome you, Mr. Secretary. You and I have been through quite a few wars together. I understand you are accompanied by Mr. Howard Bordner and Mr. Maurice Lanman, of the Department of Defense.

Mr. McNEIL. We had two appearances this morning on almost the same legislation. Mr. Lanman is appearing before the Dawson committee and will come over here later.

**STATEMENT OF HON. W. J. McNEIL, ASSISTANT SECRETARY,
DEPARTMENT OF DEFENSE (COMPTROLLER); ACCOMPANIED BY
HOWARD W. BORDNER, DEPUTY COMPTROLLER FOR ACCOUNTING
POLICY**

Senator SYMINGTON. Do you have a prepared statement?

Mr. McNEIL. I have a prepared statement dealing with provisions that affect the Department of Defense, section by section.

Senator SYMINGTON. Do you have a copy of it?

Mr. McNEIL. Yes, sir. I think we have an extra copy.

Senator SYMINGTON. Would you like to read this statement or would you like to file it for the record?

Mr. BORDNER. It has already been filed.

Senator SYMINGTON. It has been filed?

Mr. McNEIL. Well, I think it has been filed, but not entered for the record. I think it was filed with the staff.

I think it might be helpful, Mr. Chairman, if we went through it section by section.

(See p. 211 for statement referred to by Mr. McNeil.)

Senator SYMINGTON. What did you say?

Mr. McNEIL. I think it would be helpful if we went through it section by section.

Senator SYMINGTON. All right. Proceed.

Mr. McNEIL. As you mentioned a moment ago, this bill covers many recommendations in the Hoover Commission Report on Budget and Accounting. It covers important methods and procedures in the field of governmental budgeting and accounting. Most of the proposed provisions are administrative matters which could be handled without legislation, although, I think we all agree, when enunciated in the law, may have an important effect on expediting desirable improvements.

In the comments I wish to make, I shall deal with those provisions which touch on the Department of Defense, and not deal with those provisions primarily affecting the Bureau of the Budget and the Comptroller General.

The comments that we submitted to the staff last week (see p. 211), have not been approved by the Bureau of the Budget. They do, however, form our recommendations and our thoughts on the Hoover Commission reports which were filed with the Bureau of the Budget at their request last fall. We had not, up to the last week, received any comments from them, so we filed our statement exactly as we had filed it with them.

I understand that since, they have felt that certain of our thoughts require perhaps more study before they cared to completely coordinate the views of the Bureau of the Budget and the Department of Defense.

Senator SYMINGTON. Let me get that straight.

Are there some things in your position that the Bureau says it did not approve, or have they modified your position?

Mr. McNEIL. I do not know that they disagree or that they disapprove. They just said that they had not had time to evaluate certain of the thoughts that we wished to express.

Senator SYMINGTON. I see.

Mr. McNEIL. It is not a flat disagreement.

Senator SYMINGTON. There is no disagreement that you know of?

Mr. McNEIL. No; not a flat disagreement. There may be a difference of interpretation or a different wording or something of that kind.

Senator SYMINGTON. I see.

Mr. McNEIL. First, I will take up section 1 (b) of the bill (S. 3199),* which would amend section 216 of the Budget and Accounting Act to require the use of cost-based budgets in each department and establishment and their subordinate units for purposes of administration and operation, including fund control. It would also require the use of cost-based budgets in all requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau of the Budget.

*(See S. 3199, p. 3.)

Senator SYMINGTON. Now, when you say "cost-based budgets," Mr. Secretary, what do you mean by that?

Mr. McNEIL. In the following 3 or 4 paragraphs, I will attempt to explain our view.

Senator SYMINGTON. You will define what you mean by a cost-based budget?

Mr. McNEIL. Yes, sir; because there has been a considerable misunderstanding, I think, as to what cost-based budgets mean and how they would apply to our operations.

Senator SYMINGTON. My question was just due to ignorance of how you are using the term.

Mr. McNEIL. I will attempt to bring it out, sir.

Senator SYMINGTON. Fine.

Mr. McNEIL. We believe the use of cost-based budgets on the basis outlined hereinafter is desirable. Loose application of this concept as advocated by many without knowledge of Government requirements and without Government management experience, could, we believe, lead to many difficulties.

Senator SYMINGTON. Now, when you say that, just as long as I am following you, the cost-based budget idea is in the bill. As I get it, what you are saying there is that if it is used properly, it might be all right, but if it is used improperly it might be very dangerous; is that right?

Mr. McNEIL. That is correct, sir.

Senator SYMINGTON. All right.

Mr. McNEIL. Either cumbersome or dangerous, or just would not help to get our job done.

It should be clearly understood that the use of cost-based budgets should not result in eliminating the requirement for budgeting for expenditures and for obligational authority to be provided to an agency, by appropriation or otherwise, in order to incur obligations in advance of incurring costs. The Department of Defense acquires a great deal of materiel and undertakes construction under long-term contracts far in advance of expenditures or delivery of materiel. While it might not be necessary to point this out, there are some who in urging the use of cost-based budgets, have not fully recognized the requirement for operating within appropriation limitations based upon necessary financial authority for obligations to be incurred in advance of costs. Some have also seemed to indicate that there is a basic conflict between budgets based on cost and those based on requirements for obligational authority. Actually there should be no conflict. Obligational authority should be requested and provided in terms of cost, even though the cost impact will be in future fiscal periods. Likewise, fund control within an agency must be based upon granting obligational authority to subordinate units, that is, to field commands, and so forth, so that they can have authority to operate.

While we note no feature in the bill which would change the present concepts of providing obligational authority to departments and agencies through appropriations, nor which would revise existing laws with respect to the administrative control of obligations within appropriation authority provided by Congress, we believe the bill might have been worded to indicate more clearly that no such changes are intended. Moreover, we believe it would be helpful if this pro-

posed revision of section 216 were to contain an additional definition of what is meant by the cost basis of budgets.

For example, in the case of some programs, cost means "acquisition costs," as in the case of construction of public works, and procurement and production of materiel. In the case of operating and administrative-type programs it means to us, at least, cost of goods and services consumed. However, it should generally be understood that cost of depreciation of facilities procured under appropriations would not be included as an operating cost by activities utilizing such facilities, except as otherwise authorized by law, as in the case of revolving funds where the acquisition of capital assets is financed by such funds and depreciation is permitted to be charged as a cost of the goods or services sold by the activities operated under such funds.

Senator SYMINGTON. Now, let me interrupt you there, if I may, Mr. Chairman.

I have been interrupting as he goes along.

Senator KENNEDY (presiding). Yes.

Senator SYMINGTON. You say in the case of some programs, "cost" means acquisition cost, as in the construction of public works.

Now, you would have to commit beyond a year in the way of obligations before a contractor would build a building; is that not correct?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. I am beginning to see now what you mean by the term "cost-based budget." A cost-based budget in the case of a building like the Pentagon Building, which took years to build, would be purely theoretical, would it not, because your contractor would not start unless the money had been appropriated?

Mr. McNEIL. That is correct.

Senator SYMINGTON. Is that an analysis of it?

Mr. McNEIL. In other words, we must have authority from the Congress, definitely committed, before a contractor would start to build a building, a ship, an aircraft, or anything else.

Senator SYMINGTON. And that being true, would this bill, in your opinion, result in the contractor's either being hesitant, reticent, or refusing to take the work?

Mr. McNEIL. We think it is fuzzy, and could definitely give that impression—

Senator SYMINGTON. I see.

Mr. McNEIL (continuing). Although in theory, the cost-based budget is all right if we clearly understand what is intended, what we are really trying to accomplish by it.

Senator SYMINGTON. I see.

Mr. McNEIL. But we have to have a clear understanding. In the type of materiel you just mentioned, ships, aircraft, and construction, we cannot do away with the obligation side, that is, the authority granted us for long-term commitments to get those things done. We do have to measure costs; yes. The obligational authority is granted us on the bases of anticipated costs of acquisition, how much a 100 aircraft will cost, this ship, or this base, or these facilities.

But in the case of administrative-type functions—housekeeping, maintenance, and operation of bases, the maintenance and operation of equipment—we consider the application of costs to be the cost of consumption of the gasoline, spare parts, and labor necessary to keep the

thing moving for that particular year. But that is a cost of consumption and should not be dealt with in the same way as a cost of acquisition.

Senator SYMINGTON. While we are in this point right now, it came up before, Mr. Bordner—there was a time, I believe, when the purchase of long-term procurement items of one service was different from the other two. Is that now all equalized?

Mr. McNEIL. Essentially. We have most of the heavy procurement in Air Force, Army, and Navy essentially on the same basis. Navy, who did have certain advantages in continuing types of appropriations, now is a little bit behind the other two in making certain advances in this area.

Senator SYMINGTON. I am only asking for information. I would not object to the other way. As I understood it in the past, once a keel was laid you did not have to come back for a further appropriation.

Mr. McNEIL. That is right.

Senator SYMINGTON. If there was any increase in cost, you simply billed the Treasury for that increase?

Mr. McNEIL. As to major items of equipment, whether it be tanks, fire control, radar, aircraft, or ships, the practice has been, since about 1952 or 1953, to finance, at the time the Congress acts, the completion of the article or number of articles in all three services. It has helped us very much in doing a better job.

Senator SYMINGTON. So what you have done since I left the Pentagon, is to have equalized all the way through all of the services; is that correct?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. What would be fair for one would be fair for all; right?

Mr. McNEIL. Right. As to that phase of financing, it is equal for all; and that is, anything that is bought today in all three services is financed in full by the Congress when we go ahead, even though, perhaps, the contract for parts of a vessel, parts of aircraft, or parts of the construction may not be placed under contract until the following year.

We still have the credit provided in full by Congress to complete the article.

Senator SYMINGTON. Now, just to make the record clear, I do believe that if there is an increase in the cost of all items, that that should be brought back for approval by the Congress; otherwise, in effect, there would be a delegation of the appropriation powers from the Congress. Is that your opinion?

Mr. McNEIL. I think so.

Senator SYMINGTON. I am not getting in the case of revolving funds, now.

Mr. McNEIL. No. I understand.

Senator SYMINGTON. Right.

Mr. McNEIL. I think that is correct, sir. To say, increase fuel capacity of an airplane from 3,000 to 3,100 gallons, for example, I doubt if that is the kind of administrative problem that should be brought back to Congress for clearance.

Senator SYMINGTON. I agree.

Mr. McNEIL. But, if you were changing the character, certainly, if you were changing a destroyer from an ordinary type to a guided-missile type which costs considerably more, I think that is a matter that has to come back and be discussed with our board of directors.

Senator SYMINGTON. Yes. And going to the other side of that, however, if you followed this term "cost-based" to what you might call a theoretical conclusion, even though you made certain specific reservations, for example, for ships or for bombers, you might find yourself without adequate spare parts, might you not?

Mr. McNEIL. You could. But, as in most of these systems, you just have to work at it to make them work.

Senator SYMINGTON. All right. Thank you.

Mr. McNEIL. Therefore, we would suggest the committee consider the following clarifying amendments to the proposed bill as suggested for consideration:

1. Change the last sentence under section 216 (a) to add the italicized clause:

Fund allocations within the departments and establishments shall be made on the basis of such cost budgets, considering the lead time which must be allowed in incurring obligations in advance of incurring costs.

Senator KENNEDY. May I just ask one question about that? It seems to me that in considering the lead time which must be allowed in incurring obligations in advance of incurring costs, that would well limit the effectiveness of the amendment. I doubt if it would change very much existing procedures, would it, if you interpret that amendment to the full?

Mr. McNEIL. There are many existing procedures, Mr. Chairman, that I think have to be kept in the system. Frequently, as I mentioned just before you came in, I think there has been a great deal of loose talk about cost budgets and accruals, and so forth. And, therefore, we have to have, I believe, an understanding of what the cost basis of budgeting is.

I think they have to be divided in two rather clean-cut categories: One category which is based on acquisition cost for materiel which takes a long time to produce; and the second category, such as the housekeeping or day-to-day operations of posts, camps, stations, and equipment, in which case costs should be the costs of consumption, of labor and material.

But you cannot, I think, just talk about costs alone, because we must have, as Senator Symington, I think, very clearly brought out a moment ago, some mechanism in which Congress provides the authority with which we make these long-term commitments for aircraft, ships, tanks, radar, and so forth. We must have that.

Senator KENNEDY. Someone said the other day that if Congress gave the authorization, that that would be sufficient protection for a contractor in comparison to what we have now, because I made the point that the Defense Department can cancel a contract by paying liquidating costs.

Can you cancel out a 5-year contract at the end of the year, today, in the Defense Department?

Mr. McNEIL. Yes; it can be done, Senator.

Senator KENNEDY. You made the point that a contractor would not be any worse off than he is today when those contracts can be canceled.

than he would be under this arrangement if he were given the authorization and money for the first year. Then if the Congress wanted to, theoretically, it could cancel it. But so can the Defense Department today, once it pays the liquidating costs.

So I do not really see in these long-term contracts how a contractor would be any worse off, and Congress might be better off in controlling the funds.

Do you see what I mean?

Senator SYMINGTON. Yes.

Mr. McNEIL. I believe I do, sir. First, of course, this bill only covers costs and does not cover the whole problem of how you would handle your advance authority, such as authorizing contracting authority for such things, nor how it would be provided.

That problem came up several years ago, because this cost-based budgeting has been a subject that has been discussed for a good many years.

That leads next to the problem of appropriating on an expenditure basis, that is, appropriating in a given year just with a department or agency would be expected to spend, to write checks for that year.

Now, some people would construe cost-based budgeting as fitting into our present structure. Others would construe it as meaning that you would appropriate only what you were going to spend this year. Do you see what I mean?

Senator KENNEDY. Yes.

Mr. McNEIL. That is why I say there has been a lot of loose talk about cost budgets, without commencing to pin it down and define what is meant.

Now, if the Congress chose to appropriate on an expenditure basis—that is just what we would be expected to spend in a given year—we could make that system work. It would take time to install it. But if we did, we would have to go back and establish some kind of structure, very much as we have today, in order to authorize us to buy so many aircraft, so many ships, so many tanks, and to authorize us to keep so many people and to operate so many posts, camps, and stations at about a given price; then in, say, part 2 of the bill each year provide the cash we would spend in that year alone. But it means virtually a new structure.

Senator SYMINGTON. Just following the chairman's thought, I think the point is pretty well taken, is it not, that if you pay a cancellation charge on a cancellation today, you can pay a profit on that cancellation charge under the law?

Mr. McNEIL. That is right.

Senator SYMINGTON. So the manufacturer might like to see the money appropriated, but whether the program is changed either by the executive branch of the Government or the Congress, he is in as good a position as he would be, either way. In other words, you might have a case where you did not want to build a particular plane or ship, in which case you would cancel out, on either basis. Then you might have the Congress utilize its rights under the Constitution to change its opinion as to whether you did or did not need a certain device, a situation which comes up all the time in some of the subcommittees of the Congress.

Mr. McNEIL. Yes.

Senator SYMINGTON. Let us say, for example, if it were decided you do not need a base. Following the chairman's question, the contractor is just as well off under the way that the bill is now reported as he would be with this change. Is that correct?

Mr. McNEIL. I do not believe so, sir, unless you added something to the bill which in effect said that all such long lead-time authority was going to be provided, or lead-time authorization was going to be provided in the form of, let us say, contract authority.

First, I should think Congress would want that themselves, because——

Senator SYMINGTON. Would want what?

Mr. McNEIL. I beg your pardon?

Senator SYMINGTON. What would Congress want?

Mr. McNEIL. To have a measure of the commitments or obligations we were creating for the Government. For example——

Senator SYMINGTON. They would know the total dollar amount that was involved in the production of a bomber or carrier. But it seems to me that they have a closer right of review—I have never really thought about it this way until Senator Kennedy asked the question—they would have a closer right of review if each time they had a chance to look year-by-year, in effect, the same opportunity that the Defense Department itself and the Bureau of the Budget in the executive branch have year-by-year; is that not true?

Mr. McNEIL. Yes, sir. But if I may go back just one step, if we consider the cost basis of budgeting to be the appropriation each year of just what the agency was expected to spend, that will work, providing some other things are done. If we consider the cost basis of budgeting for materiel, that of financing or authorizing the full acquisition costs at one time, that means what we are doing today.

What I am trying to do is clear up the different definitions of the cost basis of budgeting.

Now, going to the question that Senator Kennedy brought up a moment ago, if Congress chose to finance activities of Departments—and I am speaking specifically of the Department of Defense—by appropriating each year just what we were expected to spend, or write checks for, we would have some mechanism in addition each year which authorized us to buy so many aircraft for so much money, so many ships, so many tanks, and so much materiel to be delivered in the future, also, authorize us to employ so many people to operate so many posts, camps, and stations up to a limit of, let us say, so many dollars for the ensuing year.

In effect, when I was asked by Senator Byrd to present such a plan in January 1953 (see p. 92), we had given some thought to it back in the late forties and early fifties because we thought sometime there might be an urge to go to an expenditure basis of budgeting; that is, to appropriate only the amounts to be spent in a year. And the system we thought we could work out that would be practicable, but which would take some time to install, would be that each year Congress would authorize us to operate at a certain level, and it would have to be measured in dollars when you got it at posts, camps, and stations, and maintenance.

It would authorize us in terms of dollars how many ships, aircraft, and radar we would buy.

Now, perhaps none of that new authorization would be spent that year, or very little of it in the first year. You would have to authorize us to do it in the form of—

Senator SYMINGTON (presiding). I think you are detailing me a little bit now on this.

Mr. McNEIL. A bit. But it is rather important, I think, sir.

Senator SYMINGTON. Incidentally, may I interrupt you just a minute? Senator Cotton and Senator Martin, we are conducting these hearings with my old friend, Secretary McNeil, on a very informal basis. If there are any questions that you would like to ask at any time, as we discuss this, I hope you will feel free to do so.

Senator COTTON. Thank you, Senator. I might do that.

Senator SYMINGTON. Any time.

Mr. McNEIL. I do not want to get into too much detail here—but in effect, Congress, in order to have control and also to give us assurance and contractors assurance that any program we embarked on, would carry with it through some mechanism, authority to procure, let us say, \$12 billion or \$14 billion worth of merchandise in future years; then as a second step each year, provide so much cash, which would be the measure of checks we would write in that year. That system could be made to work. It would take a year or two to install it, but it would work. But it would involve contract authority of some kind.

As to contract authority, that subject has been discussed almost every year by the House Appropriations Committee. At least since late 1949 or 1950. At one time they used to provide in their bills so much cash and so much contract authority. That is a messy kind of business to provide, say, just 10 percent cash and the balance contract authority. It is one thing that got us into difficulty in all departments.

So I think that any system you chose should be clean, all cash, or all contract authority, and then all cash to liquidate.

The House committee felt—and I would say hours were spent in discussing this—that the contract authority system was wasteful. That was their conclusion, and it is one reason they began in 1949 or 1950 to start appropriating all of the money to complete a certain group of aircraft, a certain number of ships, or a certain number of radar or tanks.

Senator SYMINGTON. Regardless of whether or not they needed the money in the year in question?

Mr. McNEIL. That is right.

Senator SYMINGTON. How did they justify that opinion?

Mr. McNEIL. First, they felt that the subcommittee itself would scrutinize the shopping list more thoroughly if it required more appropriations, instead of really considering as part of the then current budget only the downpayment in saying, "We will give you 10 percent cash down and the rest is contract authority, and we will make it up in future years." That was perhaps—

Senator SYMINGTON. Say that again. I did not quite follow you.

Mr. McNEIL. Well, they felt that there was a tendency both for the Department to ask and the Congress to grant amounts under the contract authority principle which they would not consider as lightly if they provided cash. In other words, when they asked for cash, they really got serious about the business.

Senator SYMINGTON. Is that an argument for the cost-based budget?

Mr. McNEIL. No. It is——

Senator SYMINGTON. In other words, let me put it to you this way: One of the biggest criticisms in recent years has been the length of lead time. And as you know, there has been a tremendous emphasis not only in the Congress and the departments, but in the press itself on the amount of appropriations, which I am sure we both agree is not nearly as important as expenditures incident to obligations; right?

Mr. McNEIL. Yes.

Senator SYMINGTON. Now, there was a statement that the lead times were much too long. I remember some of them ran as long as 36 months on planes.

Mr. McNEIL. That is right.

Senator SYMINGTON. And I believe that one of the positions taken by the Department when I first came to the Senate was that those lead times could be materially shortened without affecting the delivery of planes.

Mr. McNEIL. As a matter of fact, they have been shortened considerably, and I think manufacturers with a little less backlog perhaps are doing a little better job producing.

Senator SYMINGTON. Actually, a lead-time plane has nothing whatever to do with shipments and expenditures unless the lead time is cut too much; right?

Mr. McNEIL. That is correct, sir. If it is cut too much, then it could delay it.

Senator SYMINGTON. Now, however, it seems to me that that justification for lead time was based on the fact that if you had those long lead times, you might get relatively casual with respect to your programming and your production at the expense of the taxpayers.

Mr. McNEIL. Yes.

Senator SYMINGTON. And I am just thinking that maybe the same thing would be true here, that this bill, this cost-based budget concept, would also give you a closer check on money from the standpoint of the contractor himself, that he would know what he was doing was going to be periodically reviewed, not only by the administration and executive branch, but also by the Congress. Do you see what I am trying to say?

Mr. McNEIL. Yes, I do.

Senator SYMINGTON. It is a closer control, you might say; it is a closer control through management-cost control.

Mr. McNEIL. Well, first, I did not intend to convey the impression that I was against a cost-based budget. I wanted to understand and I thought it would be helpful if we all understood what a cost-based budget was, and next I thought that if we were to adopt a cost basis, and understood what it was, then we had to go one step further than this bill calls for, and outline the machinery, the mechanism or the system by which would be granted the authority to make commitments for the long-term lead-time items, because before our Department could place orders for aircraft, ships or any other equipment, they will have to have the authority from Congress in one form or another, either in contract authority or in cash.

I would urge that whichever is done, whether it is contract authority or cash, that it be clean, one system: all contract or all cash, and not just half and half.

Senator SYMINGTON. And that is a cost-based budget?

Mr. McNEIL. Yes, in the case of long lead-time materiel it would be. It budgets based on acquisition cost.

Senator SYMINGTON. Yes.

Mr. McNEIL. So you either provide all the money to buy a certain number of aircraft, complete, in a year, or you provide contract authority for these same 200 aircraft, let us say, but not have it part cash and part contract. I would urge that we never get into that again.

Senator SYMINGTON. On the other hand, if you are going to establish a price, you have got to have an obligational authority.

Mr. McNEIL. That is right.

Senator SYMINGTON. You establish a price based on a quantity of 200, if you are going to make 50 a year, and not a price based on 50. Otherwise you would not get anything like the price that you would with a contract for 200. On the other hand, if your budget, per se, was on the basis of cost, you would request of the Congress contractual authority for 200 planes, but an expenditures budget that would cover only 50 planes, because you would only want that amount of money in the year in question in order to pay up the bills.

Mr. McNEIL. That is correct.

Senator SYMINGTON. Or, in other words, pay for your shipments. Now, you say that that system would not work?

Mr. McNEIL. That system will work. That system will work if we adopt it complete across the board, taking the thousands of items that we buy and applying that principle to all of them, but providing contract authority for the whole 200 aircraft as well as other such materiel and then cash for whatever would be needed for expenditure that year, but if it were to be done the whole system should be put on that basis.

And that is the principle, really, that we outlined in the plan that I mentioned a minute ago. We submitted this to Senator Byrd in 1953 when he was interested in what could be done if Congress considered appropriating on an expenditure basis. It would take a little time for the departments to gear themselves to it.

I think there would be advantages to that system if the change were complete. But speaking only of a cost basis of budgeting, as is the case in this bill, I think you have to go much further if you want to apply or install such a different principle in a new system. That is all I am urging.

Senator SYMINGTON. I am asking these questions purely for information. Assuming that you went to a cost-basis budgeting, with obligational authority, but the actual appropriation only in theory enough to carry your expenditures from the standpoint of your received shipments, I can see what would happen under this bill if you got more money than you needed, because engineering changes, for example, held up a ship or a plane; you would, as I understand it, give it back to the Treasury. But suppose that due to reasons incident to world conditions or better production, you needed more money; would you handle that in a supplemental?

Mr. McNEIL. We would have to.

Senator SYMINGTON. You would have to handle that in a supplemental. It would have to be to a certain extent, an emergency situation; would it not?

Mr. McNEIL. In the same way if you speeded up some other item that was under contract, you would still have to do it.

Senator SYMINGTON. For example, if you needed more spare parts as an addendum to an original order, because of failures of any type of part, then you would have to handle that in a supplemental; right?

Mr. McNEIL. That is right, sir.

In the past I think the Government has devoted too much attention to the obligation side of the picture and not enough to the cost. There is no question of that. But at the present time, there is a great tendency on the part of some to think only of costs and never of the obligation side. I think that to fail to emphasize either would be dangerous both for the Congress and for the department.

I certainly want to see business management in Government. However, many things that a business has to do because of taxation and what not are not applicable to the Government. Therefore, I think if we can put good business principle into Government work, but not necessarily try to make Government machinery exactly like business, we will make more progress.

Senator SYMINGTON. I agree with you entirely.

Mr. McNEIL. Frequently we have tried to tap all the available talent in business management, accountants and everything else, in order to help solve our problem. In fact, when you were Secretary, you know we were busy then, and we still are, trying to get ideas that will get us a better business management in Government.

But frequently, people who have worked solely on business accounting deal with costs, to the virtual exclusion of obligations, and in many cases they have, for this reason I think, a weakness or a blind spot when it comes to the Government operation, where the Congress must know what our future obligations are, what we have committed the Government to do. And frequently that is overlooked in applying the so-called accrual and cost basis of budgeting. I think there is a tendency to downgrade the obligation phase too much.

Senator SYMINGTON. I think you used the term not too long ago of the board of directors with respect to Congress. I agree with that. My chief criticism of Government accounting as against business accounting would be that in Government everybody is very careful to record where the money goes or tries to be, so that there can be no question about any nonsense, and they try to record every penny. But on the other hand, I do not think they interpret the recordings as one does in private business in order to get better management.

Mr. McNEIL. That is correct, sir. I think you have put your finger on one of the real weaknesses.

Senator SYMINGTON. And that being true—and I am not saying I am for or against this—I want to emphasize this point, nor have I been briefed in it except by a member of my own staff in the last hour before we started—but wouldn't this cost-based budget, which I believe Senator Byrd was quite interested in—you mentioned him a couple of times——

Mr. McNEIL. But as I say, I want to add rather quickly there——

Senator SYMINGTON (interposing). Wouldn't that give you a little better—let us use a trite but still good term—wouldn't that give you a better cost control?

Mr. McNEIL. It could, sir, if we had the whole system, but not just one piece of it. That was really my point.

Senator SYMINGTON. Now, when you say that—I will take that as a premise—what would you need beyond this bill in order to have a whole system, as you put it?

Mr. McNEIL. Adopt the system whereby the Congress each year would authorize our entire program, some of which would be just for the following year and some of which would extend into future years; and then as a second action, or companion action, provide the cash which we would spend the following year.

Senator SYMINGTON. Right. I understand that. But how does that differ from what we do now?

Mr. McNEIL. Well, it is different in the sense that, while we present the program and it is authorized in terms of appropriations to maintain a strength of so many men, operate so many stations and buy so much materiel, the difference is that the cash is all appropriated at the moment.

Senator SYMINGTON. I understand that. Now, this bill would say that the cash was only appropriated for the year in question?

Mr. McNEIL. Right.

Senator SYMINGTON. Except for that modification, where would there be any difference that you would have to worry about? You say, "If you go the whole way." All right. Let us not discuss whether you should. But let us take the premise that you do. What would be the difference between your approach to the Appropriation Committees and the authorization committees of the Congress now under this bill and the way we have done it in the past? That is what is not clear to me.

Mr. McNEIL. The difference in approach would not be great. It would be almost the same. Their method of treatment would be different.

Senator SYMINGTON. If there would be any difference of any kind, what would that be?

Mr. McNEIL. I beg your pardon, sir?

Senator SYMINGTON. If there would be any difference of any kind, what would that be?

Mr. McNEIL. There would be a difference of treatment once the presentation is made; no difference in the general presentation, except perhaps more emphasis on what you are actually going to spend next year. There would be more emphasis on that.

Senator SYMINGTON. In other words, you would be forced to tell the committees more about your actual costs than you do now as against your actual obligational authority?

Mr. McNEIL. No, not actual cost; actual expenditures in the next year.

Senator SYMINGTON. Actual estimated expenditures?

Mr. McNEIL. Yes.

Senator SYMINGTON. Well, in effect that would be actual costs; would it not?

Mr. McNEIL. Yes, except that when we embark on something in the future, I think it is well for the Congress and ourselves to consider the total cost over the long term.

Senator SYMINGTON. Oh, yes. But you would present the total cost in your request for obligational authority?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. And then you would segregate out of that your estimate of what you would need to cover your expenditures for the first year of the overall program?

Mr. McNEIL. Of course, this bill does not call for what you have just mentioned or what we are discussing. If this bill did, and then provided a reasonable time to put it in motion, I think it might be a real step ahead.

Senator SYMINGTON. I think we are making a lot of progress.

Where does the bill not carry out the idea that we have just, perhaps it would be fair to say, agreed on as better cost control?

Mr. McNEIL. It just talks about the cost basis of budgeting:

For purposes of administration and operation, cost-based budgets shall be used by all departments and establishments and their subordinate units. Fund allocations within the departments and establishments shall be made on the basis of such cost budgets.

And, of course, supplementals are to be submitted on a cost basis. But that is not a plan of operation such as we have been discussing here in the last 5 minutes. The plan we have been discussing——

Senator SYMINGTON. Then what you say, as I understand it, is that if this bill was a cost-based budget, as they call it, which is a budget based on expenditures, how does that alter the fact that at the same time you asked for the money, you presented your cost of your overall program and the estimate of the total cost, whatever the program would be? Then you would be satisfied with it; is that right?

Mr. McNEIL. Yes, but, personally, I think it could be made to work; but we would have to go a little further than that. That is generally, however, along the lines that I think would be workable. Time enough would have to be given for both the Congress and the department to adjust itself to that type of operation. That was in essence the outline plan that we submitted about 3 years ago——

Senator SYMINGTON. Now, let us go back to the bottom of your page 3. Your first amendment in effect applies to what you are just saying, does it not?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. All right. Would you proceed with that, then?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. Senator Cotton, have you any questions you would like to ask at this point?

Senator COTTON. Just one, if I may.

You had a representative present when we were talking the other day and talking yesterday, I think, about the proposed amendments that were going to be drafted and submitted by the Bureau of the Budget and the Comptroller General's Office?

Mr. McNEIL. That had reference to the other bill that was being considered here?

Senator COTTON. Yes.

Mr. McNEIL. Yes, sir.

Senator COTTON. Now, that was along the same line of what you are talking about changing this bill, was it not, and making it more far reaching?

Mr. McNEIL. No, sir. That was Senate bill 3362 (see p. 2), I believe, and that dealt with two problems: (1) the settlement of claims; and the other was the consolidation of accounts once the period of obligation had expired.

I understand there is a committee print here with a proposed amendment.

Senator COTTON. I was only trying to draw an analysis. But are you suggesting that this bill could be strengthened by an amendment so that it would be affirmative in going the whole way in putting in a cost system?

Mr. McNEIL. Yes, it could. I think it would take quite a lot of work, sir, but it could be done.

Senator COTTON. Would you favor that?

Mr. McNEIL. Yes, I would favor it personally, because I think there are advantages. But it would take, my estimate would be, at least a couple of years of intensive work before the departments and the Congress could reverse themselves and put in the system.

Senator COTTON. In other words, it could not be done overnight?

Mr. McNEIL. No, sir.

Senator SYMINGTON. Now, what system are we talking about there, Mr. Secretary?

Mr. McNEIL. I am talking about the system on which we were exchanging views about 5 minutes ago, where Congress would authorize the whole program on the one hand and provide separately—

Senator SYMINGTON. But they do that now.

Mr. McNEIL. They do.

Senator SYMINGTON. They do it now. So there is no change there.

Mr. McNEIL. No substantive change.

Senator SYMINGTON. And then the next point?

Mr. McNEIL. Then the next point is providing concurrently, or as a companion action, the cash you would spend in the following year.

Senator SYMINGTON. All right. Now, what happens now is that Congress authorizes all the money for, say, the 5-year program or whatever is necessary in order to get all the merchandise involved on the basis of estimated lead times, and the change would be that they would authorize that but only put the money up for the expenditures required in the year in question?

Mr. McNEIL. Yes.

Senator SYMINGTON. That appears to be a relatively simple procedural correction.

Mr. McNEIL. No. It is quite involved, sir, because the Government departments have not as a practice, and particularly the Department of Defense has not as a practice, refined their estimates of what is going to be spent in the following year by all the 3,000 different programs to a point where you can make a good guess.

Senator SYMINGTON. If you are talking about major items, now, we will take a *Forrestal* carrier program, or we will take the B-52 bomber delivery program. Certainly in the authorization for that, you say in the next 5 years we want so much money because we are going to get so many carriers, which would be one, or so many bombers, which would be a certain amount, and so forth. There would be no

problem about that. "This is what we estimate we are going to need, and this is what the authorization is that we would like to have."

Mr. McNEIL. No. That part is simple.

Senator SYMINGTON. All right.

Mr. McNEIL. That part is simple.

Senator SYMINGTON. Then where do we get into complications?

Mr. McNEIL. And we are doing it today.

The big problem is arriving at, in all the various procurement programs as well as operating programs——

Senator SYMINGTON. No. We are not talking about operating programs now. We are talking about the purchasing of carriers, planes, or bombers. We are talking about procurement programs.

Mr. McNEIL. All right. I will stick to the procurement program——

Senator SYMINGTON. Yes.

Mr. McNEIL. Although I think this should apply to the whole business if we are going to do it.

Senator SYMINGTON. Let us stick to this one first.

Mr. McNEIL. All right. The analysis of actual cash requirements in all the scores and hundreds of contracts is not a science in the Department of Defense at the moment. How much will actually be spent on a contract, how much actual cash will go to Boeing, Convair, Grumman, or anybody else, next year is not known precisely. You can guess it approximately. But attention has never been placed in any executive department that I know of, and certainly the Department of Defense, on that phase, as being one of the key points of procurement. We would have to make a rather accurate estimate, because if we overestimate Grumman or Boeing a little bit, we could easily come to you with an estimate of 10 percent above what would actually be required.

Senator SYMINGTON. And you put the attention of the people involved deeper into cost analysis, and therefore control through the management of the cost.

Mr. McNEAL. All of which, I think, could take a couple of years to get the thing working.

Senator SYMINGTON. Senator Cotton, I did not mean to interrupt you.

Senator COTTON. That is all right. You said that Senator Symington lived with these things, and so he will drop us some of his comments as we go along.

Mr. McNEIL. Excuse me.

Senator COTTON. I just want to straighten out 2 or 3 things in my own mind. First, sticking to procurement only, sticking to this matter of when you contract ahead for a carrier or for a large number of substantial number of planes, and the contract is going to take 5 or 6 or 7 years to carry through, are those contracts firm contracts with a fixed amount, or do you have escalator clauses or some other means of taking care of a possible change in the cost of material and materiel, and so forth?

Mr. McNEIL. There are all types of contracts, sir. On the more involved material and newer equipment, there is escalation; there are target price contracts; there are price redetermination contracts, and always provision for design and engineering changes.

Senator COTTON. Then if you go on a system of authorization, the merit of that system, as you have referred to it, is that the Appropriations Committee of Congress knows what it is being obligated to in the future. It is almost impossible for you or anybody else to inform a committee of Congress what an important contract like the construction of a carrier or a large contract that extends over several years is going to cost. You cannot foresee what it is going to cost; can you?

Mr. McNEIL. Well, I think we are doing a pretty good job of that, sir, as to the overall cost, but it is more difficult to forecast, by contract, just how much will be spent in each 12-month period in the case of a long-term contract.

Senator COTTON. I am not questioning but that you are doing a good job.

Mr. McNEIL. No; we have gotten it down to a point that, while once in a while we have a cost change or cost changes that in the aggregate mean that something costs a little more. I would say our estimates of what this material costs are remarkably good in all services at this moment.

Senator SYMINGTON. Would you yield just a moment? If you can do a good job in 5 years, you can certainly do a better job in a year, because you are going to have changes in cost, changes in material costs, and changes in labor costs. So if you can do a good job for 5 years, why can't you do a good job for 1 year? Or let me put it to you this way. Now this is a little broader question.

Nobody wants to see a balanced budget more than we three up here, I am sure of that, but you have a \$60 billion budget overall for all the Government, and you are going to balance it, Secretary Humphrey said, by \$200 million. That would be, just figuring here, about one-third of 1 percent of the budget, as the difference between a balanced budget and an unbalanced budget.

Now, if there is any problem about what you are actually going to spend in a year for activities that take around 64 or 65 percent of the total tax dollar, I do not see how you can estimate that you can balance the budget unless you know what you are going to spend pretty closely, especially as you estimate by such a fine line as one-third of 1 percent of the total.

Mr. McNEIL. That is a very good question, and I can tell you how it is done.

First, if you will make an adding machine list of the best estimates made by a great many very able people in charge of the hundreds of individual programs, the total will run far greater than the amount that will be required to cover the checks written during the year.

For example, if we should take any one of the proponents of a missile, he knows it is going to work. He knows the thing is going to come along beautifully, and when he lays out this estimated expenditures, he knows that that is about it.

If you take a new engine or a new aircraft or a new tank or a new radar, the proponent of that program knows he is going to get it quick and, that the initial schedule is going to be met. So his estimate of expenditures on his program, frankly, will be high. There is nothing wrong with that. He would be trying to do the best job he knows how. True, he has not been required in the past to be precise in refining his estimates. But the sum total, the adding machine list of all program estimates will be greater than the amount of checks written

next year, because whether it be strikes or whether it be design difficulties, or what not, things do not always move just as each individual program proponent thinks they will.

So, as we justify these programs to committees and try to estimate the amount that will be spent on each major program or contract, the sum total of that will be considerably greater than the actually required overall. It is just bound to be. Expenditure estimates are, therefore, not the sum total of individual program estimates but rather such estimates in the aggregate, modified by experience, possibility of slippage, knowledge of overall levels at employment, and so forth.

Senator COTTON. Mr. McNeil, I want to make it very plain to you, that my question is not critical.

Mr. McNEIL. I understand.

Senator COTTON. I served on the Appropriations Committee in the House for quite a long time, and I even served briefly on one of the military subcommittees, and I have really been amazed, and marveled, that the Defense Department could do as accurate a job as it does in laying out the program of what is going to be required.

But it still seems to me—and the purport of my question was this—that if the advantage of the authorization system is that Congress is supposed to know in advance the whole program, it would seem to me that, changing as rapidly as you are, with the cost of material changing rapidly at times, your own specifications, sometimes change, do they not, on long-range contracts—

Mr. McNEIL. They do.

Senator COTTON. You do not have that complete knowledge and, on the other hand, you have less control.

What I would like to ask you is this and then I will yield to Senator Symington.

Senator SYMINGTON. No, I am interested in this.

Senator COTTON. Would you be willing, because some of us on this subcommittee have not been through the mill as Senator Symington has, would you be willing, or would it be too much trouble to have somebody on your staff prepare for this committee so that some of us can study it, one or two examples of budget tables for appropriations for procurement, like planes or carriers, or something else, and one or two examples of the requirements of supplies—do I use the correct term?

Mr. McNEIL. Yes; I understand.

Senator COTTON. And show us in those special items or appropriation titles how the two methods would work and what would be the effect of this bill, and the budget information and tables.

Mr. McNEIL. I think I can do that, Senator. We would have to understand that working out a single example is rather simple. It is when we put the literally thousands of items together that we get into our problem.

I would like to complete an answer to Senator Symington.

I do not mean to say that we could not do it, but, in a reasonable period of time, I think we could get to a point on the expenditure side where we could be almost as proficient as we are on the other side at the moment.

We have been working on this phase of the problem during the last 3 or 4 years to get where we are now. We do not consider our ex-

penditure estimating by program as satisfactory as our estimating on total program costs.

So all I meant was that it would take time to put such a system in and make it work.

Senator SYMINGTON. I do not want to pass any compliments out here, but I do not think there is anybody in the Pentagon more knowledgeable of figures and problems of figures than you are, and I have a great respect for your opinion. On the other hand, you see these periodic disclosures of waste. For example, I was pretty shocked to read the testimony that has just been published in the House Military Appropriations Subcommittee. It does not have to do with this Administration or that Administration. It has to do with both Administrations.

Mr. McNEIL. Yes, that is right.

Senator SYMINGTON. I noticed that Secretary Wilson said he was "mad and sad." I think those were two of the words he used after reading that record.

Mr. McNEIL. Those were exact quotes.

Senator SYMINGTON. Is that right?

Mr. McNEIL. Those were exact quotes.

Senator SYMINGTON. It was on page 161, I believe.

I know that there was a case where a plane was believed faulty and, for many, many months after it was purchased, or 6 months afterward, at times, killing test pilots due to engine failure. That story broke as the result of a great newspaper's investigation, for which it got an award.

Now, I know and you know, and I know that you know that I know, that there was no skulduggery in that situation. The chances would be less than 1 percent. It is just the fact that we have really loose management control through cost control which, as I understand Senator Byrd's approach to the problem, is the thing that he is so anxious to get.

There are always a lot of methods by which you can make a budget balance, or an estimate balance, for example—you can stop buying or you can defer shipments—you can do a lot of things to justify a position—of course, against that you have to balance how much you need. In business you could not do that if the stores were crying for merchandise. But, at the same time, in Government you have a better chance of doing it, especially in the Department of Defense, unless you are in a war.

Now, all I say is, would it not be better—and I am just thinking this thing out with you here—to force the Department to a closer analysis—and that is what we are really talking about, Mr. Secretary, as I see it. Would it not be better to force them to a closer analysis of actual expenditures in the year in question, so that what you would really get, as I see it, would be better control on the part of each service of the money that is granted to them by the Department of Defense?

Mr. McNEIL. I think anything that we can do which will encourage that will be helpful.

On the item that you just mentioned, however, I do not believe that appropriating on an expenditure basis would have prevented the matter. I have examined that rather carefully. I examined the

House Committee report, as did Secretary Wilson, and we said, "Let's take that report and see how much we can get out of it to improve our operations."

Senator SYMINGTON. I thought his testimony was very constructive on that.

Mr. McNEIL. In other words, he did not oppose it or attempt to whitewash a thing. We all really wanted to find out if there was anything in the report which would help correct the machinery to avoid recurrence in the thousands of transactions we have.

I do not believe that any change we are talking about here would have affected that case. In fact, one of the real problems is how do you get people, when they find something is drifting into trouble, and this is true in business as well, to cut off something, once you know it is not going to work, or once you think you are in trouble. That item plus another one that was canceled last year—it was not the same type of situation, but the item was not going to be a productive or really effective type of equipment because of delay in development—was an instance where I think we waited a little too long to drop it off. But how do you get that done promptly when the people need a more advanced article desperately, and sincerely hope and believe it will work out. Hope is a great thing in this world, and they hope that some development will come along to make it work.

Senator SYMINGTON. Let me ask you this. In business, almost every company has what is, in effect, termed a monthly balance sheet, earnings, statement, and balance sheet, showing assets and liabilities, current and fixed, and earnings against costs, and so forth.

And that is broken down now to where you generally submit it every month, as you do the whole business to your stockholders every year.

In business, I found out that if you had a statement that was a weekly statement, that was much better than a monthly statement, giving various things incident to your fiscal position and quite a lot incident to your operating setup.

Then we got it down to a day. Every day we had certain figures distributed around on mimeographed sheets, so that every day we had a check.

Mr. McNEIL. Particularly on the trouble spots.

Senator SYMINGTON. I beg your pardon?

Mr. McNEIL. Particularly on the trouble spots.

Senator SYMINGTON. That is right. For example, in a foundry, you can allocate per sand casting, if you are still in sand castings, per day. What I think now is that if you tighten this thing up, and that is what we are talking about, this would be tighter cost control. You can get your authorization—I am in complete agreement on that, that you ought to present your whole program to the proper committees—but then you say, "This is the money that we want this year, because this is the estimate of what we will spend."

If you do not spend it, it goes back to the Treasury, and if you need more than that, then you come in for a supplemental, which, as a matter of interest, we do pretty nearly every year. Has there ever been a year in the Defense Department when you did not come in for one supplemental?

Mr. McNEIL. It is usually one or more, sir.

Senator SYMINGTON. All right.

Mr. McNEIL. I might say, Senator, that not necessarily with this objective in mind, but realizing the importance of trying to get a good idea of what you are going to spend, we have been devoting considerable effort to evaluating operations on that basis, in recent years, although it has not been a mandatory part of the budgeting process.

I might say this, that 3 or 4 years ago, or even 10 years ago, the initial estimate of what would actually be spent in a given year out of the available authority would run from 25 to 40 to 50 percent in the aggregate above the amounts that actually were spent. In the last 2 years, we are getting to a point where the program managers are getting their estimates down within 10 to 15 percent above what would be a good gross estimate. We have been devoting a great deal of effort to that side of the business, even under the present budget structure.

We felt that once the House Committee cleaned up, what I thought was a very bad practice, as I mentioned a moment ago, of providing, let us say, 10 percent down and the balance contract authority, which was the old method of providing contract authority, and started to fund or appropriate for the full amount of the programs as presented and approved, a great step forward was taken to clean up the thing. Then the Congress helped us a great deal by providing a continuing type of appropriations for most of our long-term procurements. That was a real help, and frankly it has saved the Government a great deal of money because—and I think you would know this perhaps better than almost any of us—if you have something such as the aircraft you mentioned a minute ago, and the people involved can cancel and use the funds for something that is good, it is much easier to get that decision made to cancel, to close out or to slow down the ineffective, unsatisfactory purchase.

If, however, it is "dead money," you will find, I think, human nature being what it is, that the proponent will hang on as long as he can.

Senator SYMINGTON. That is so.

Mr. McNEIL. A good example may be found in the case of the Marine Corps. When the Marine Corps was provided continuing type appropriations there was, in the following year, substantial adjustments in their procurement programs.

Senator SYMINGTON. Now, when you say "continuing money," do you mean revolving funds irrespective of obligation?

Mr. McNEIL. No, sir.

Senator SYMINGTON. What do you mean by continuing money? Define that.

Mr. McNEIL. No year funds. When appropriated, it is available for obligation until it is completely used. It does not lapse on June 30.

Senator SYMINGTON. I think we are all opposed to that, unless it is required under long-term procurement programs.

Mr. McNEIL. We have only applied it to long-term procurement. But the Marine Corps had never had it even for such procurement. They had always had annual appropriations. Their program under previous annual appropriations was considered reasonably sound.

However, in the year in which they were granted no-year authority for their major procurement, they immediately went back over their list of outstanding material and dropped out about \$300 million worth of materiel because they felt, "If we can use that authority for more modern gear, there is no point in accepting something that is sub-standard," and so forth.

I would say we definitely saved by that change in method of financing \$300 million for the Government. Otherwise we would have taken the other material and immediately had a requirement to replace it with the more modern equipment.

Senator SYMINGTON. Yes.

Mr. McNEIL. I think the Air Force has done the same thing.

Senator SYMINGTON. Now, Mr. Secretary, you got down to the bottom of page 3. I have one more question, and unless some of the other Senators have a question, I would like you to proceed with your statement.

The question I would like to ask you is if you put in:

Considering the lead time which must be allowed in incurring obligations in advance of incurring costs.

That in itself would simply be a recognition of the problem and would not change the basic idea; would it?

Mr. McNEIL. No; it is a recognition of the problem, and implies that you have to provide in some form the authority to make these long-term commitments.

Senator SYMINGTON. Right. In other words, it is a request for obligational authority, but not a request for a change from the basic concept of cost-based budgets?

Mr. McNEIL. No.

Senator SYMINGTON. Right?

Mr. McNEIL. But again, I want to make it clear that cost-based budget, I think, must mean two things: One is acquisition cost on equipment, major equipment; and the cost of consumption in normal housekeeping and day-to-day operations.

Senator SYMINGTON. Right. But you would not want to extend the money that you asked for beyond what you would spend in the year in question; right?

Mr. McNEIL. Not if Congress provided for a completely new system; no.

Senator SYMINGTON. And what you are really saying in this underlined part of your talk is to ask that full consideration be given to long-term items, regardless of whether you do or do not have the expenditure situation in the bill as of now; right?

Mr. McNEIL. That is right, sir.

Senator SYMINGTON. Senator Cotton, do you have any further questions at this point?

Senator COTTON. No.

Senator SYMINGTON. Senator Martin?

Senator MARTIN. No questions.

Mr. McNEIL. But to make this clear, sir, I think that if this bill did contemplate such a change, it would be helpful to outline the whole problem and to state the basis of appropriations and costs of long lead-time obligations.

Senator SYMINGTON. Do you have any language that you would like to see included in the bill?

Mr. McNEIL. We have some, but it does not give the complete package that I would urge be considered.

Senator SYMINGTON. Will you proceed?

Mr. McNEIL. Right, sir.

Next, insert in section 216 (c) the wording underscored above after the words "shall be prepared on a cost basis."

Insert in section 216 (d) the underscored words: "The budget required by section 201 of this act to be transmitted to the Congress shall contain information on program costs and accomplishment as well as obligations and expenditures * * *"

You must keep those two things in the picture.

Senator SYMINGTON. May I ask just purely for information, what is the definition of "accomplishment"? Does that mean what you have actually done to date on the overall program?

Mr. McNEIL. What we have done on the program to date, yes, where it stands. [Continuing:]

4. Add to section 216 (e) to define the cost basis of budgets, as follows:

(e) The cost basis of budgets, as provided in this section, shall mean:

(1) cost of acquisition in the case of programs for construction of public works or procurement and production of materiel.

(2) cost of goods and services consumed in the base of operating- and administrative-type programs.

(3) depreciation of capital assets employed shall be excluded as a cost except in cases specifically authorized by law.

While the proposed bill does not provide for changing the basis of appropriations from obligational authority to accrued expenditures or costs, as recommended by the Hoover Commission, we would like to mention that the Department of Defense is not opposed to that idea and believes it has merit, provided the concept of obligational authority is retained, as for example by the provision of separate contract authority by the Congress, in the manner recommended by the Hoover Commission.

We mentioned a moment ago that we had outlined our thoughts on that.

Senator SYMINGTON. Excuse me, Mr. Secretary. Let me just be sure I understand here. What you are adding, as I understand it, under No. 4, is that you want a more precise definition; is that right?

Mr. McNEIL. Yes, sir; that is one of the points.

Senator SYMINGTON. You do not change the idea that you only ask for the money you need for the year in question, but you want a precise definition with respect to complete clarification before the Congress of the total cost over the long pull of the entire program?

Mr. McNEIL. The current cost, as well as the obligational authority that you need to carry on.

Senator SYMINGTON. Right.

Now, one other question here on page 5, because it does not do us any good to read this without understanding it. You say, "We would like to mention that the Department of Defense is not opposed to that idea and believes it has merit," the idea being to change the basis of appropriation from obligational authority to accrued expenditures.

I think we understand that, that is just shortening it up to the year in question.

Mr. McNEIL. As a matter of fact, we are trying to take the present system and approach that ideal at the present time.

Senator SYMINGTON. Right. But you say, "provided the concept of obligational authority is retained." Of course, that would have to

be retained. Otherwise, you would have a complete balk from some of your suppliers; do you not agree?

Mr. McNEIL. That is right. But if you read the writings and reports of many people who have written on this subject, they drop this out, ignore it, or play it down, and I think it is a vital part of this whole package.

Senator SYMINGTON. Yes. Thank you.

Mr. McNEIL. Now, there is another section of the bill that would require the Bureau of the Budget to assign personnel to serve in each principal department and agency.

We would question whether the Budget and Accounting Act should be amended, as proposed, to prescribe the designation and assignment of Bureau of the Budget personnel to serve in the principal departments and agencies.

Informally, we have, I think, a very excellent working relationship with the Bureau of the Budget; in fact, we are doing what this proposes. We have tried to operate for a number of years on the basis that the "safe is open" and the Bureau is welcome to information they need day in and day out, 365 days of the year.

In fact, there are more than two now regularly assigned in and out of Army, Navy and Air and our place, because we want our programs to be in such shape that we do not care who scrutinizes them. We think that is proper, so we have worked out an arrangement which is time saving, as well. As you recall, years ago we used to submit the budget on September 15 to the Bureau of the Budget, followed by a series of hearings there from September to December. In fact, other agencies are still doing it.

We have shortened the time required because now, by more or less living with us on an informal basis, they know what is in our proposals. Therefore, we eliminate 2 or 3 months of time previously required to process a budget and, in that way, we can get the Joint Chiefs' plan 2 or 3 months later. The people who are working on the procurement plans have 2 or 3 months' more time to develop their plans and make decisions closer to the year in which we are to operate.

Senator SYMINGTON. Now, you are talking about section I (c) here?

Mr. McNEIL. Yes, sir, but I do question whether such a thing should be written into law. It is an administrative matter and—

Senator SYMINGTON. Actually, if I am not mistaken, the Bureau of the Budget is in the Executive Office of the President, is it not?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. So, if he wanted to do it that way he would do it if he thought it would be better.

Mr. McNEIL. Certainly.

Senator SYMINGTON. And what you really would be doing if you passed this part of the law, would be creating by statute something which is fundamentally an operating and administrative problem?

Mr. McNEIL. That is correct, sir.

Senator SYMINGTON. Because the Bureau of the Budget is either satisfied or dissatisfied with the nature of their relationship with the Pentagon and the Department of Defense, and that is their problem as the direct representative of the President, is it not?

Mr. McNEIL. Exactly, sir.

Senator SYMINGTON. Yes. Now, that comes to another point that we discussed. I think Mr. Bordner and I discussed it the other day. This one I wish you would give consideration to and I would just as soon not have you answer it right away. Just give it some thought.

One thing that has always worried me is that when we get the budget finally over here, it looks like the biggest telephone book in the world and I know that I am totally incapable of grasping it in the time available. The Executive Department starts off, July 3, I believe is the day. They start working on the next budget. Then in the fall, some time, the Services have ironed out with the Department of Defense, and the Secretary of Defense has made his decision. Then it goes to the Bureau of the Budget some time in the late fall and it has to be decided in the early winter in order that the President can make his speech to the Congress, or his annual message. Is that about right?

Mr. McNEIL. Yes.

Senator SYMINGTON. In January.

Mr. McNEIL. Except, as I say, we have eliminated that second set of hearings in the Bureau of the Budget that used to take from September to December. Now, we have consolidated those to save some time and get a better job done.

Senator SYMINGTON. Yes. When are you through with the Bureau? That is interesting.

Mr. McNEIL. About December 15.

Senator SYMINGTON. About December 15. In any case—and there is nobody who would know better—give me your frank opinion as to just how long the Congress has to analyze the budget prior to the time, for example, when you come up to the Senate Armed Services Committee for authorization of the program.

Mr. McNEIL. Well—

Senator SYMINGTON. Senator Russell likes to get it over with as soon as possible, so would you say he had 30 days?

Mr. McNEIL. In the House—I beg your pardon?

Senator SYMINGTON. Thirty days? Would that be too much or too little?

Mr. McNEIL. It is about 30 days, 3 weeks to 30 days, before the first hearings before the House Appropriations Committee.

Senator SYMINGTON. I was going to say, it would be a little less than 30 days and, therefore, except for your appearance before the Appropriations Committee, which would be later, April or May—

Mr. McNEIL. Well, in the House, they have been starting about the first of February and running through until the last week in March or early April—about 3 months.

Senator SYMINGTON. That is right, so even in that source of all the money, you have a very short time. Therefore, my question is, what would you think of Representatives in the Congress now—let me hasten to add—with no authority and probably no right to speak except to ask questions at the meetings—but say that members of the Appropriations Committee of the Congress, staff members, who would, of course, have to be approved by the executive branch, being allowed to sit in on the formulation of the budget. What would you think of that?

Mr. McNEIL. It would depend on the definition of "sit in."

Senator SYMINGTON. That is right.

Mr. McNEIL. As far as inquiring constantly through the whole 6 months' period, I would be happy to show what we were doing and why. However, as to the question whether they were to sit in at the meetings where the decisions are made, I would question whether that would be quite the right thing to do. They could, however, live with us close enough to know what was happening and what was in the budget and why. I think the latter might be very helpful to all sides.

I might add this, sir, and this is a personal view—that if we could find some way to have a professional staff, who could serve, let us say, both the House and the Senate, in order that a more complete job would be done by individuals who were experienced in aircraft, in electronics, in research, in personnel—it would not take a very big staff—the Appropriations Committee could know what was happening and what was in the budget. When our hearings start in both the Senate and the House, they would have presented to the committees certain policy questions and the pros and cons of principal issues so that there would be a more direct and incisive approach to the problem.

I think it would be helpful to both the executive branch and the Congress.

Senator SYMINGTON. Now, you say you work from the first of July in the executive branch, from the first of July to, say the middle of January, as a guess. That is 6½ months.

Mr. McNEIL. Yes.

Senator SYMINGTON. And during that time you have the capacity to analyze, check and recheck your program?

Mr. McNEIL. Yes.

Senator SYMINGTON. And when you get through you give us a telephone book—and it is a beauty—and in it is 65 cents of our tax dollar, and maybe more than that if you extend it into other fields that are ancillary to defense, like atomic energy.

So you have at least 65 cents of your tax dollar and we, in the Congress, from an authorization standpoint, have 3 weeks' to 4 weeks' time to analyze before we act.

So my feeling is, based on the experience in this side of the Government as well as on the other side, that, regardless of whose fault it is—I am not blaming anybody—the system has grown to a point where now the check by the Congress is pretty theoretical.

Mr. McNEIL. Well, sir, we are attempting to close that gap. I do not know how adequately, but in recent years, and this year again, in order to put our program before the Congress so that it can be better understood in a reasonable length of time, we have been preparing about a 60-page document which is submitted to the Appropriations Committees, called the Budget Highlights. There we show our asset position, what we have, what we have used, and have not used, our expenditures by major appropriations, expenditures expected for the following year as well as the past, and an outline of major programs in terms of materiel.

As to aircraft, it lists the aircraft by type and model, and also shows the inventory by type and model, as well as the production and acceptance schedules.

On the section for ships it shows what the situation is on the ships under construction and the details of the new conversion program. It covers also personnel, Reserve forces, those in drill pay, and so forth.

I agree that the budget document does not give a very good picture, even if you are familiar with it, of what is intended to be accomplished. We think our Budget Highlight book does a great deal more.

Senator SYMINGTON. Yes.

Mr. McNEIL. Of course, one of the problems is that a great deal of that material in the Budget Highlight book is classified. Some of it is not, however, and could be used generally.

Senator SYMINGTON. Let us take a typical illustration and I will not labor it any further. But take the Nike and the Talos. There a subcommittee of our Armed Services Committee is in the process of analyzing that situation, and I am sure that their beliefs will have considerable impact—I am not on the committee—with the Senate Appropriations Committee when that matter comes up. It involves millions of dollars.

Mr. McNEIL. Yes.

Senator SYMINGTON. And yet they do not really get much of a chance to really test the performance of the two weapons in accordance with Senator Jackson's suggestion which I thought was quite sound. There seems to be a question about the relative merits of these weapons. Also, one missile is considerably less expensive than the other, and, therefore, the taxpayers are deeply interested. There seems to be a difference of opinion, right in the Pentagon itself, as to which is the better. This is the type and character of thing where I believe we ought to have more time, if possible, before authorizations and appropriations are handled.

Mr. McNEIL. Going back to the thought that I expressed a moment ago, maybe it would be asking too much, but if the House and Senate jointly could have a professional staff of 6, 8 or 10 knowledgeable specialists in particular fields whether it be personnel, consumption-type material, aircraft or electronics, so that they kept abreast of the program, then when the hearings were opened, I think their attention would be directed to developing policy-type questions, and the staff could have ascertained the reasonable accuracy of our proposals, as far as the detail was concerned, and it might be helpful to all sides.

Senator SYMINGTON. I would agree with that.

Mr. McNEIL. I would urge—

Senator SYMINGTON. Would you object, for example, to this as an academic approval? Suppose the House Military Subcommittee of the House Appropriations Committee assigned a man to the 3 services, because your budget originates in the 3 services prior to it being presented to the Secretary of Defense; right?

Mr. McNEIL. Yes.

Senator SYMINGTON. And that that man followed the reasons why the budget proposals were what they were. In your meetings, he would have absolutely no authority. In fact, it would be understood that he did not talk; he just registered. And then he would come to you or somebody you assigned for clarification after the meetings in question. But then he could come back and report to Congressman Mahon and Congressman Cannon, the chairman of the full committee,

or, if it is shifted around, Congressman Wigglesworth and Congressman Taber, and they would have a feel of it as the budget was formulated, you see? That is my only thought about it.

Mr. McNEIL. Well, I do not believe it should go quite that far. I would think not as far as participating in the decisions, even as an observer. I see nothing to prevent, however, such a staff member having program information by living there and following programs constantly, let us say, the electronic program constantly all the way through, so that he became knowledgeable, but without getting into the phase of the question dealing with participating in decision meetings even as an observer.

Senator SYMINGTON. Would he be more knowledgeable? Except for Senators with a genius for figures, like Senator Byrd, or I remember Senator Case when he was on that committee in the House had a very rapid grasp of it—it seemed to me that the average Senator would have a better understanding of what they were putting up these billions upon billions of dollars for. That is the basis of the thought.

Mr. McNEIL. For my part, I would welcome a more intimate interest by the two Appropriations Committees on a year-round basis than we have had. It would be helpful if it could be handled by one single joint staff although I do not know whether that is possible. One of the real problems that we have—and I think you probably experienced it some years ago yourself—is a considerable number of different groups of people looking into our programs, but frequently just shallowly, because they do not have time to spend on it. It would be helpful for us to have fewer groups—as, for example, a single joint staff—on a continuing but more thorough basis.

Senator SYMINGTON. Right.

Mr. McNEIL. And so if we could get a——

Senator SYMINGTON. And all the way back to the Voorhees committee days. Do you remember?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. Now, let me ask this. Would you be good enough to furnish this subcommittee with a statement along these lines, which would not in any way commit you, but to express, if it were done, what your thoughts were as to the best way of doing it?

Mr. McNEIL. Yes.

Senator SYMINGTON. Senator Martin, would you have any objection to that, sir?

Senator MARTIN. Not at all.

Senator SYMINGTON. Without objection, then, the subcommittee will request that the Department of Defense and its Assistant Secretary in charge of the money will give the subcommittee his idea as to how this aspect of budget procedure could be best handled from the standpoint of more time, which would automatically mean more knowledge on the part of the authorization committees and the Appropriations Committees regarding the budget of the year in question. (The information requested regarding a joint staff for the Appropriations Committees of the Senate and the House of Representatives follows:)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON 25, D. C.

In the course of my appearance before your committee on S. 3188, it was indicated that your committee would desire to have my personal views as to how the appropriate committees of Congress might best secure a more meaningful and comprehensive understanding of the legislative and appropriation requests presented to the Congress. Because the question was developed during consideration of accounting and budgetary aspects, it is assumed that, while the word "legislative" was used that any contribution that I might be expected to make would be primarily from the budgetary aspects and as it affects the Appropriations Committees.

Generally, the problem would deal with the preparation, presentation, and subsequent consideration by the Congress of requests for appropriations, and it seems to me that it can be subdivided into two rather clear-cut phases. The first, dealing with the preparation and presentation of the budget has many facets. By the enactment of title IV of the National Security Act, as amended, the Congress indicated rather clearly that the performance-type budget was to be adopted. The performance budget contemplates that all costs relating to a logical and identifiable program be included as a project or a budget program, that there be a logical grouping of projects or budget programs by the primary functions of the military departments, and that there be a segregation between capital and current operating costs. These are the most important elements for proper consideration both within the executive branch and by the Appropriations Committees of the Congress.

While there is considerable work yet to be done, considerable progress has been made toward this objective in all the services. The most recent example of an individual step toward this objective was the development and presentation to the Appropriations Committee of the House of Representatives, of a revised structure for the maintenance and operation appropriation for the Army. The fiscal year 1958 budget is to be submitted with all pertinent costs of some 35 identifiable programs, each complete in itself. During fiscal year 1957, the Army's efforts in this would be devoted toward making the transition. It is my belief that when this is effected for the first time we will have a completely understandable and largely simplified structure for the presentation of the appropriation request.

There are many additional steps being taken to resolve this problem of making an understandable budget and program presentation. One is development of a system that gives proper measures of consumption. Real progress is being made in this direction by establishment of the stock fund principle in all three military departments. This principle, simply stated, means that material of a consumption nature taken off the shelf for use is charged to the current-using appropriation, thus providing both better knowledge and increased control by the Department and the Congress of expenditures in the broad field of maintenance and operation.

Another step of a similar nature is the expanding application of the principle of financing industrial and commercial-type activities by working capital funds—sometimes loosely termed the "corporate principle." This provides a customer-supplier relationship and, at the same time, provides a simple and effective way of ascertaining the costs of goods and services produced by Government-operated activities. An additional large segment of this program was approved by the House Appropriations Committee in its report on the Department's request for appropriations for fiscal year 1957.

The adoption of a system providing for financial accounting for property and resultant improvement in inventory management represents additional progress toward the desired objectives.

I would like to repeat that all of the above are excellent steps under any kind of organizational or procedural plan for proper preparation, presentation, and consideration of the Departments' budget request, and I am in full accord with the committee report at the time of enactment of title IV which stated that "The performance budget does not dilute, but strengthens, legislative control and responsibility" and again where the committee said "As a matter of fact, the performance budget sharpens congressional control over the Department of Defense by giving more comprehensive and reliable information" and that "it affords the individual Members of Congress the means of understanding what the Military Establishment is doing and what the costs are."

The second part of the overall problem, it seems to me, deals with the organizational and procedural aspects of congressional consideration of the departmental appropriation requests. As I mentioned in my testimony of March 27, I do not believe it would be particularly helpful to consider a plan which contemplated congressional staff representation in the course of the preparation and formulation of requests to be made of the Congress, to the extent of participating in decisions that were being made as to executive branch recommendations which were subsequently to be made to the Congress.

During my testimony I did state, however, and would like to repeat, that I have personally felt that it would be helpful if the Appropriations Committees, simpler method of understanding the various aspects of our programs and the underlying policies related thereto, and that a small staff of specialists in the various fields of procurement, personnel research, etc., might be of substantial assistance to the committees. Presently, the competent, hardworking staffs of the two Appropriations Committees have little time to pursue on a continuing and specialized basis the underlying aspects of the many various important programs of the Department.

In the past, the committee chairmen have, on numerous occasions, named what might be termed "ad hoc" committees or groups to examine our requests and the underlying policies. For the most part, the personnel chosen from outside sources have been competent, but in each instance have had the disadvantage of having to pick up from the beginning and file their reports at the end of 2 or 3 months. It would seem to me that rather than depend on short-time specialists' efforts in this regard, the committees could be assisted by a small group of specialists working on a continuing basis under the supervision of the present staff directors to analyze requests and relate them to underlying policies, thus providing committee members with less individual effort on their part with the basis for a comprehensive understanding, review, and interrogation. Naturally, from the point of view of the Department, it would be helpful if such a continuing analysis and review could be made by a single group under the joint staff direction of both committees. However, the manner and the extent to which the Appropriations Committees desire to pursue their analysis and review is a matter entirely within their province.

W. J. McNEIL

Mr. McNEIL. Would I be getting into hot water if I suggested——

Senator SYMINGTON. We can go off the record.

Mr. McNEIL. In such a statement that it would be nice if the two committees could have a single staff. Is that asking too much?

Senator SYMINGTON. Not at all.

Mr. McNEIL. I do not mean——

Senator SYMINGTON. I do not know that it would be agreed to, but I personally see no objection to it. It would just be a question of the division of the legislative responsibility, just as we talk about the division of powers in other matters. Nobody in the Government has had as much experience as you have had now in this feature of the overall Defense Department picture, because you have been with it since the beginning and you had great experience before the three services were combined into the Department of Defense. I think the subcommittee would be tremendously interested in anything that you might have today on any basis as to how the Congress can have a better chance to analyze the budget before we are obligated to pass on it.

Mr. McNEIL. I would be glad to, sir.

Senator SYMINGTON. On the military budget.

Mr. McNEIL. Incidentally, when I mentioned one staff, I did not mean that each Appropriations Committee would not have its own staff to handle their respective bills. I was merely thinking of the single staff for specialists in these different technical or program fields.

Senator SYMINGTON. I understand that. And the whole budget system in the Congress is a fluid and functional one, where there is

a close relationship that ultimately becomes completely identified as a result of conferences in the event of possible disagreements.

Mr. McNEIL. Yes. I would like to think our budget would be accepted by the Congress on the basis of knowledge that it was sound all the way through and there were good reasons for things that were being done.

Continuing with section 2 (b) of the bill, this section would amend section 113 of the Budget and Accounting Act to require each agency to maintain its accounts, on an accrual basis in accordance with standards prescribed by the Comptroller General, to show currently, completely, and clearly the costs, resources, and liabilities of such agency. It is further provided that the accounting system required shall include monetary property accounting records. These accounting requirements naturally should accompany the use of the cost basis of budgeting.

It is doubtless not intended to imply that an agency should maintain its accounts exclusively on an accrual basis, because that would mean the agency would not maintain its accounts on the basis of available appropriations and administrative subdivisions thereof in the manner otherwise directed by the Congress in order to prevent the overobligation of funds and incurring of deficiencies prior to the recording of costs or liabilities in the accounts on the accrual basis. In order to adequately control its funds, each agency must continue to account for obligations incurred in advance of costs. In other words, it must go beyond the accrual basis of accounting as generally practiced in industry.

Senator SYMINGTON. Now, I am sorry, but I do not quite understand that—

In order to adequately control its funds, each agency * * *

When you use the word "agency," do you mean each service?

Mr. McNEIL. Each department.

Senator SYMINGTON. Each department; each service, in effect.

Mr. McNEIL. Yes.

Senator SYMINGTON. Including the Department of Defense?

Mr. McNEIL. That is right.

Senator SYMINGTON. You could consider the Marine Corps from this standpoint as part of an agency?

Mr. McNEIL. Yes, sir; or any other executive department.

Senator SYMINGTON. I see. You say:

In order to adequately control its funds, each agency must continue to account for obligations incurred in advance of costs. In other words, it must go beyond the accrual basis of accounting as generally practiced in industry.

Mr. McNEIL. That is right.

Senator SYMINGTON. I am not quite sure I understand that.

Mr. McNEIL. Well, if Congress provides us \$1 billion to maintain and operate 1,000 posts, camps, and stations scattered around the world, we cannot use over \$1 billion. We must have the mechanism to see that we do not.

Senator SYMINGTON. Unless you come in for a supplemental.

Mr. McNEIL. Yes, that is correct. But would the Congress desire us to let each station commander spend whatever he chose on an accrual basis and then add up the costs, and if we are short, come up and ask for more money?

Senator SYMINGTON. Yes. But I used to have about 100 distributors all over the country, and they were given certain allowances. Believe me, there was no idea that we would approve any excess above that allowance unless they came to us and justified it.

Mr. McNEIL. That is right.

Senator SYMINGTON. So I do not quite see the difference between the cost control of industry and the cost control of Government in that particular case.

Mr. McNEIL. There is a difference. It is not too great a difference. But many people, when they loosely talk about, "Well, we will just go on the accrual basis," think that is the solution. But there must be also the mechanism which you use in business, but in business if your sales went up, you could authorize them to go further; in our case, we cannot do it just within ourselves beyond the limit that Congress has authorized. Our control has to be a little sharper.

Senator SYMINGTON. I see. You think in business you could do it probably on the premise that the President had trust and confidence of the board of directors? You could do it as an Executive decision—

Mr. McNEIL. That is right.

Senator SYMINGTON. Whereas here under the law you must get the approval of your board of directors, which in this case is the Congress; is that your point?

Mr. McNEIL. That is right.

Senator SYMINGTON. I see.

Mr. McNEIL. Therefore, our control has to be a bit more precise.

Senator SYMINGTON. And formal?

Mr. McNEIL. And formal.

Senator SYMINGTON. I see.

Mr. McNEIL. That is really the point we are making.

Senator SYMINGTON. I think I stopped you at "moreover."

Mr. McNEIL. Moreover, it is necessary that each agency shall maintain accounts on a cash basis, as also required by the Congress, in accounting for appropriations on the books of the Treasury, in determining the annual cash surplus or deficit of the Government as a whole, and in order to account for expenditures in relation to amounts budgeted.

There has also been some misunderstanding on the part of some accountants outside the Federal Government of the special accounting needs of the Government and some impatience with the maintenance of the obligation and expenditure bases of accounting.

Senator SYMINGTON. Now, you were so clear in your previous definition that I would appreciate your dwelling on this a little bit.

Mr. McNEIL. Well, during discussions with several groups from outside accounting firms, and some from business, there has been some impatience with the fact that we felt we had to maintain control over obligations, and to see that we did not obligate more than Congress gave us for a particular service or program.

Senator SYMINGTON. This bill from that standpoint would help you a little bit, would it not?

Mr. McNEIL. I do not see where it would help it, sir. I do not believe that would change.

Senator SYMINGTON. Well, let us see, now. You would have a direct return on your expenditure situation on the basis of one-fifth of

a 5-year program. That might tend to make you more careful in your estimating, that you say has been so much improved, as against your actual needs. I think that is pretty direct. I will agree with you.

Mr. McNEIL. There have been those also who, while recognizing requirements for maintenance of accounts on the basis of obligations and expenditures, have proposed the maintenance of separate accounting systems on the accrual basis, including resources, liabilities, and cost of operations, independent of, or overlapping the accounting for the appropriated funds for which the agency is accountable. In general, it is usually proposed that such separate accounts be reconciled with the appropriated fund accounts so far as obligations and costs are concerned, but generally there is no consideration given to accounting for resources and liabilities in relation to the specific appropriation and fund subdivisions.

I can add a bit to that. We have had several proposals made that accounting should be done on the accrual basis without regard to the source of funds. We believe that any accounting system we establish on the cost basis must tie in to the way you people give us the money, and do it in a single system.

I hate to take the time of your subcommittee with this type of detailed discussion, but this is one of the points that has caused, I would say, some delay in going ahead with a firm program for fiscal improvement in the executive department.

Senator SYMINGTON. As long as you understand my position on this, speaking for myself only, I do not think you can have a more important hearing than this on the Hill, because if we do not somehow get the record out so that we start building in the Department of Defense on the basis of progress, the free world, from the standpoint of defense, is going to lose. And the only way I know to earn more money if your sales stay the same and you have these long-term programs, is to reduce your costs.

So what we are really talking about here is how to get more defense for the taxpayers' dollar; is that not correct?

Mr. McNEIL. That is correct, sir.

Senator SYMINGTON. And what could be more important than that, with the whole concept of our way of life in the balance? So don't you worry about the time you take.

Mr. McNEIL. This gets a bit on the technical side, and I did not want to lead you in too much detail. But we are getting at the heart of some of the reasons we have not adopted the incomplete accrual plan and gone ahead with it, I believe.

While we agree that the use of the accrual basis of accounting is desirable to the extent of providing the same basis of accounting as required for budgeting on a cost basis, we believe it is important that there be no indication in the bill of either implying possible elimination of the obligation and expenditure basis of accounting for funds or any possible requirement to duplicate such accounting through the use of another system, even with the understanding that there be reconciliations between the two systems. The accrual basis of accounting can be integrated within the basis of fund accounting without the use of any separate system of accounts, nor requirement for a reconciliation between separate cost and obligation accounts. Such integration

is often facilitated by the use of revolving funds, as in the Department of Defense, for financing inventories of consumable materiel and production of goods and services in industrial and commercial-type activities, for sale to activities financed by appropriated funds.

The proposed bill would provide that the Comptroller General prescribe standards for implementing the provisions for establishing the accrual basis of accounting. We believe this responsibility should be in the executive branch of the Government, in the Director of the Bureau of the Budget. Such standards are not separable from standards for the cost basis of budgeting.

Senator SYMINGTON. Let us get into that just a minute here: "The proposed bill would provide that the Comptroller General prescribe standards for implementing the provisions of establishing the accrual basis of accounting."

Now, what do you mean by that, Mr. McNeil? That is nice language there, but I can't quite follow it.

Mr. McNEIL. It is stated in section 2 (b) of the bill, and my point that I wanted to make, sir, was along the lines we discussed about an hour ago. I think we have accounting tie-in to a financial structure in such a way as to encourage or force management decisions. And there is too much of a tendency sometimes to develop accounting for accounting's sake—to see that two columns balance——

Senator SYMINGTON. I will agree with that.

Mr. McNEIL. Instead of gearing it so that the boss can better run the business.

Senator SYMINGTON. I will agree with that. In other words, it is a straight recording proposition to assure that you have not done anything unethical or illegal, but no real effort to improve your performances or your operations as a result of the figures that you have recorded; is that correct?

Mr. McNEIL. And while the Comptroller General has some very excellent people, and he himself, I think, is quite competent, my point is this, that the emphasis there in that agency must be, and properly should be, on accounting and audit. But I think the emphasis in our Department has to be on getting figures that help senior commanders, secretaries, and managers to be better able to run the business.

So I would like to put the emphasis on that, but certainly would expect the Comptroller General to examine them to see whether they satisfied good accounting objectives—that is fine—and if they did not, take action with you people to bring us into line.

That is all right. But I want to repeat, I want the emphasis on accounting to run the business, and not for accounting's sake alone.

Senator SYMINGTON. I would like to make a comment. But before I do, would you complete reading at the top of page 9?

Mr. McNEIL. I did not understand you.

Senator SYMINGTON. I said, I think you stopped at "we believe" at the top of page 9.

Mr. McNEIL. Yes. I have just covered the balance of that paragraph in my comments, sir.

Senator SYMINGTON. Will you read it again to be sure?

Mr. McNEIL. We believe that this responsibility should be in the executive branch of the Government, I think in the Director of the Bureau of the Budget.

The standards for accounting, I think, have to be such that they tie in to the cost basis of budgeting, or whatever system of budgeting you are using.

What I am really saying is that I think it is an executive branch job, because it is a management job.

Senator SYMINGTON. Nobody has more respect for the General Accounting Office than I have under its great former manager, the Honorable Lindsay Warren, and also under its present fine manager, the present Comptroller. But what you are saying here is that you believe that the functioning cost systems incident to the handling of the Department of Defense are an administrative matter for the executive branch if you are going to get management control through cost control; is that correct?

Mr. McNEIL. That is right.

Senator SYMINGTON. And you do not believe that the General Accounting Office should reach into the methods used, although they, of course, have full supervision over the results?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. Is that correct?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. I am inclined to agree with you on the principle involved.

Mr. McNEIL. Yes, sir.

I want to add that the Comptroller General and the General Accounting Office have been of great help to us, back during the war and since. That is why I said that they have some very fine people.

Senator SYMINGTON. There is no better organization in Government.

Mr. McNEIL. I do not think they need confine themselves strictly to audit in the narrow sense, but rather audit and reporting to you as the board of directors, as to whether our systems are working, and so forth. That is fine.

Senator SYMINGTON. And if they get too far into the details of your method of cost control or management control through cost control, then in effect they are assuming an authority for which they do not have the responsibility?

Mr. McNEIL. That is correct, sir.

Senator SYMINGTON. Is that right?

Mr. McNEIL. That is right.

Senator SYMINGTON. I might add, Senator, that the Secretary and I have never discussed this matter before. At least, if we have, it was not less than 6 years ago.

Mr. McNEIL. Six years ago.

Senator MARTIN. You are doing all right.

Mr. McNEIL. For these reasons we suggest a complete restatement of the proposed section 113 (c) as follows—something along these lines:

(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Director of the Bureau of the Budget, cause the accounts of such agency to be so maintained as to show completely and clearly all expendable resources, liabilities, available balances, and costs incurred as well as obligations incurred, under each appropriation and allocation or allotment thereof, with a view to facilitating the preparation of agency reports to include cost

data as required by section 216 of the Budget and Accounting Act of 1921. In addition, the accounting system required shall include adequate monetary property accounting records, integrated with the appropriated-fund accounts. Wherever desirable to facilitate this integration, the use of revolving funds shall be encouraged to finance procurement and inventories of consumable materiel and production of goods and services for sale on a reimbursable basis to consuming activities financed by appropriated funds.

I want to touch on a point there. In my experience, I have found that the use of revolving funds to maintain inventories of consumption-type materiel is one of the greatest steps forward in encouraging both better management of inventories, the adoption of better merchandising methods, as well as providing one of the finest methods for measuring the value of materiel consumed in getting a job done, and it is virtually automatic. It is virtually automatic because when it is sold for consumption, you have a measure of what it has taken to get that job done. And in effect it fits right into a system of budgeting on the basis of cost of consumption.

Senator SYMINGTON. Yes.

Mr. McNEIL. So we feel that every place where we have established a revolving fund, we have made real profit for Uncle Sam.

It takes some time to shake it down, and people have to get used to handling it, but wherever it has been installed and properly operated it has been working very well.

Now, section 2 (c) of the act would further amend the Budget and Accounting Act by adding section 120 to establish in the Bureau of the Budget under the supervision of the Director thereof, a staff Office of Accounting, the head of which shall be the Assistant Director of Accounting.

The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of effecting improved integrated budgeting and accounting for the Government as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvements go hand in hand and both are properly placed within the executive branch of the Government. Therefore, if legislation is believed necessary, we believe it desirable that the Budget and Accounting Act be amended, consistent with the establishment of this function in the Bureau of the Budget, to provide that all budgeting and accounting principles and standards should be established by the Director of the Bureau of the Budget in the executive branch of the Government rather than by the Comptroller General.

And, I might add, for the reasons we discussed a moment ago.

Senator SYMINGTON. Yes. In effect, the General Accounting Office is an arm of the Congress; is it not?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. And the Director of the Bureau of the Budget is an arm of the executive?

Mr. McNEIL. That does not mean that day after day they cannot be very helpful, and we might turn to them for assistance some time.

Senator SYMINGTON. Yes.

Mr. McNEIL. The proposed bill would also amend the Budget and Accounting Act by adding section 121 which would establish requirements for the head of each executive agency to appoint a comptroller to be directly responsible to him.

Senator SYMINGTON. Who is "him"?

Mr. McNEIL. That is intended to mean the head of the agency, each department of Government.

Senator SYMINGTON. In other words, it would refuse him the power of executive delegation; is that right?

Mr. BORDNER. No.

Mr. McNEIL. No. I think, sir, we have used the word "him" and we should have said "the comptroller responsible to the head of such executive agency." We are just defining "him."

Senator SYMINGTON. Yes. But when you say "the head of such executive agency," you preclude his being able to delegate that responsibility to anybody in the department; do you not?

Mr. McNEIL. That is right.

Senator SYMINGTON. And that is a management decision that you are going to establish by legislation; is it not?

Mr. McNEIL. Yes; that would be the result of it. However, I do feel that the Comptroller in our Department, the Comptroller of the Air Force, should report to the head of the Department, and in the field the Comptroller should report to the commander.

Senator SYMINGTON. But then you get into this problem that we had, where the question was: Was he to be a civilian or was he to be a military man? And I think we decided that if the No. 1 man was to be a civilian, the No. 2 man had to be a military man, and vice versa; is that right?

Mr. McNEIL. That is right.

Senator SYMINGTON. Is that still the way it is?

Mr. McNEIL. That is still the way it is. But I did not care whether he was military or civilian, as long as we got the best man for the job.

Senator SYMINGTON. Yes. But my only point is that if you have a lieutenant general as the Comptroller, it is pretty difficult to segregate him from the chain of command and put him under the Secretary of the Air Force or the Secretary of the Navy. This would seem to be an arbitrary law that that is what you have to do if you made a military man Comptroller.

Mr. McNEIL. Well, that problem would arise, sir. Of course, in title IV of the National Security Act, we already have this legislation in the Department of Defense.

Senator SYMINGTON. When the subject came up, I think that some of us felt that the important thing to do was to get the right man, and not to have any arbitrary establishment that he had to be a civilian or he had to be a military man.

Mr. McNEIL. Of course, since then, Congress has established in Army, Navy, and Air, an Assistant Secretary for Financial Management, and that gets us into one more facet of this problem.

Senator SYMINGTON. That is right. I can see that.

Mr. McNEIL. Is "financial management" a broader term than the word "comptroller"?

Senator SYMINGTON. Yes.

Mr. McNEIL. If a comptroller is merely to see that the facts and figures are together, that is one job. Then, next comes the analysis of the programs to show progress, efficiency, and so forth, and it gets a bit broader than sometimes is considered the definition of a "comptroller."

Senator SYMINGTON. Running through this bill and analyzing it in your statement here, it seems to me that you are trying to legislate management functions. That may be an oversimplification.

Mr. McNEIL. I believe this bill—we are trying not to be too critical of it, but certainly it does—and I think most of these are things that can be done administratively, everything in the bill, partially, but if you chose to pass it or to pass a bill of this type, we were attempting at least to give our thoughts on it.

Senator SYMINGTON. Yes.

Mr. McNEIL. This section also provides certain specific functions and duties of the agency comptrollers.

We have certain thoughts to express on this point. First, it is not necessary in the case of Department of Defense, because title IV of the National Security Act covers this subject on a much broader basis. And, if this act is passed, we feel it quite important that this proposed legislation not supersede or take the place of title IV of the National Security Act, although I am not sure that the language of the bill would have that effect.

Next, the Comptroller's functions, as provided by the bill (in the language of the statement of the Department of Defense views), we think greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, I think his budget responsibilities are even greater.

Senator SYMINGTON. Now, when you say that, Mr. Secretary, just what do you mean by that, "his accounting responsibilities are obviously important"; do you mean his management responsibilities when you talk about budget responsibilities?

Mr. McNEIL. No.

Senator SYMINGTON. What do you mean by that?

Mr. McNEIL. I believe I describe that a little later in this paragraph—

Senator SYMINGTON. All right.

Mr. McNEIL (continuing). If I do not cover it at this point.

Senator SYMINGTON. I am sorry.

Mr. McNEIL. We do not think that the Commission's report adequately set forth the concept of the Comptroller or, in our case, the Assistant Secretary for Financial Management in Army, Navy, or Air, or Defense, in that he should provide an independent review and analysis of budgets, as well as reports on performance and that he should assist the Secretary of the Department as a coordinator, in reconciling and balancing with other programs the budget claims for financial support of the several fields of operating interest, each program having its advocate at the top level, and balancing those with the potential resources including the spending authority granted by Congress.

This does not mean that the Comptroller or Assistant Secretary for Financial Management actually controls the operations or serves as general manager or is the superior of his teammates who have the responsibility for actual operations. The reason I say that, is that it is the one place in Army, Navy, and Air where all the various programs come together. I think the analysis of the various programs and fund requirements should be given to the Chief of Staff or the Secretary, who must make the decisions. The same principle would apply

in the case of field commanders. His job is to analyze the programs and present all the facts in connection with them.

Senator SYMINGTON. This is one place where I might run into a little disagreement with you, because, first, you have the question of the Comptroller and then you say "or Assistant Secretary for Financial Management." That is an internal problem so that you do not have dual lines of responsibility and authority on an organizational chart. On the other hand, the Comptroller should in no sense be a policy-maker. That is correct; is it not?

Mr. McNEIL. That is right.

Senator SYMINGTON. And if he is not a policymaker, then he is fundamentally a staff man and not an operating man. Would that be a fair statement?

Mr. McNEIL. That is correct.

Senator SYMINGTON. And, therefore, his position would be purely one of an advisory nature and he would be used as much or as little as his chief would want, who would be say, in your case, the Secretary of Defense, or the Deputy depending on how you operate your delegation. It would depend on how much he wanted to use you.

Mr. McNEIL. That is correct.

Senator SYMINGTON. On the other hand, as I see it, if we agree to that, we do not want to have the law arbitrarily rule out any position of policy that might be delegated to you by the Secretary of Defense; is that it?

Mr. McNEIL. That is correct, but a little more than that. The bill deals with accounting only; I mean it emphasizes accounting. We think it is too narrow in that respect.

So, assuming that the Head of the Agency chose to use him only as a staff to get the things together, to present analyses of this or that for his use, and that he had to stay out of the room whenever decisions were made—say you carried it that far. Even so, the language in this bill emphasizes accounting but not those other facets which I think are very important, which is an explanation of what figures mean.

Senator SYMINGTON. In other words, the bill emphasizes the recording angle, as you see it, at the expense of the interpretation of accounting to get better management; is that it?

Mr. McNEIL. That is correct; and performance.

Senator SYMINGTON. Now, of course, I would like to make it pretty clear on the record that there have been comments that there is already too much control by the Comptroller. Someone has said that he who controls the purse strings, controls all, and we have heard some criticism of the functioning in the Department of Defense on the basis that the Office of the Comptroller was abnormally predominant on the organizational chart. Would you like to comment on that?

Mr. McNEIL. I have heard that, too, sir.

Senator SYMINGTON. Do you believe it is justified?

Mr. McNEIL. No, sir; I do not. I will say this, that the money function is frequently the target of a rifle shot where perhaps a shotgun should be used. One reason for that comment is that decisions are frequently implemented through the money channel even though the money people did not make the decision.

Senator SYMINGTON. In other words, if the Secretary of Defense decides to put a money ceiling on the three services he has got to establish that ceiling by giving instructions to his comptroller?

Mr. McNEIL. That is correct.

Senator SYMINGTON. Would it be in order at this technical hearing to ask if the Secretary of Defense has been putting ceilings on the Department of Defense or on each of the three services?

If my distinguished colleague from Iowa said that that is not a proper question for this hearing, I would be the first to withdraw the question.

Senator MARTIN. I have no objection.

Senator SYMINGTON. All right, there is no objection. How about that?

Mr. McNEIL. Not in the form that I think you have in mind.

Senator SYMINGTON. Now, don't guess as to what I think, you say what you think.

Mr. McNEIL. All right; not as to a total; there have been none.

Senator SYMINGTON. Not as to a total?

Mr. McNEIL. A total.

Senator SYMINGTON. When you say "total" do you mean a total for each service?

Mr. McNEIL. That is right. Now, on individual programs in different parts of the world, or different programs, "let us keep it to this figure until we see where we are going." Yes, that happens as far as individual management decisions time after time, and I think it is all right.

Senator SYMINGTON. You have to establish a total for the Department of Defense, do you not?

Mr. McNEIL. That is right. Well, we haven't had any ceilings in the form in which we used to have the budget ceilings set at the beginning of the year. We haven't had those in the last 6 years.

Senator SYMINGTON. In other words, you have not had the Department of Defense say, "all the money that we are told by the executive branch, the President, and the Secretary of the Treasury and the Bureau of the Budget, the three who have the most interest with the President's authority"—you have not heard anybody say, "all the money that we can spend in the Department of Defense is so much for this fiscal year"?

Mr. McNEIL. No.

Senator SYMINGTON. And, therefore, you have not had the Secretary of Defense say for each service or any of the services, "This is all the money you can spend for this year"?

Mr. McNEIL. No. As a figure which it is hoped will be reached, yes, but no ceilings in the form that we used to have when, for example—I think you will recall in 1948 and 1949—we had a specific flat dollar ceiling before we even started to prepare the budget.

Senator SYMINGTON. Yes.

Mr. McNEIL. Even after the budget was passed, we at times had a flat dollar ceiling on the amounts we were to spend during the year.

Senator SYMINGTON. And I thought that was wrong.

Mr. McNEIL. We have not had ceilings in that form, although certainly there have been statements as, "we hope you can keep in this general ball park", but no ceilings like the old—

Senator SYMINGTON. If you had, say, five component parts to the Navy, and you said "each component part can spend only so much," in effect, would you not, after you added those all up be saying to the Navy that "you can only spend so much"?

Mr. McNEIL. We have not had a blank check but neither have we had a rigid ceiling.

What I am really trying to say is that, "Now, what do you think is the least, or what do you think it will take to carry out this general program? Well, the amount will come out so much."

"Can't we get that down a little bit? We will set that for you as a target to try to reach."

But there has not been any mandatory ceiling such as we used to have.

Senator SYMINGTON. I do not want to belabor the question, but let us take this situation. We have had unclassified information given to us that the Air Force asked for so much money for 1957 and the Navy asked for so much money, and the Army asked for so much money, and in each case that request for money was materially reduced. I believe, also, that it was reduced in at least one case, heavily, in the Department in question before it was even presented to the Secretary of Defense.

Mr. McNEIL. I think that is true in all three.

Senator SYMINGTON. Was it true in all three?

Mr. McNEIL. Yes.

Senator SYMINGTON. If that is true, weren't you establishing a ceiling? It is sort of like the chicken and the egg but, nevertheless, are you not establishing a ceiling first in the departments from the standpoint of the civilian over the military, and then another ceiling of the top civilian over the three services?

Mr. McNEIL. No, I do not believe it works quite like that, sir. I think you will find in this rather indefinite field in which we are working—by "indefinite" I mean nobody knows for sure whether this equipment is quite ready to buy or exactly what the opposition is going to do, or when, or if certain things will happen—initial estimates, prepared, let us say, at subordinate commands, are based upon their interpretation of perhaps some broadly written guidelines which include the words, "see that we have adequate reserves."

Well, adequate reserves can mean anything up to 5 years, as an example. Perhaps the general policy will be that "adequate" reserves are desired. but "adequate" reserves might be considered a year's supply on hand, although when it is translated at a lower echelon of a bureau, tech service, or command, "adequate" means, say, enough for 5 years.

In reviewing estimates the initial figure is brought down to a figure which conforms to the basic decision that we will have 6 months' or a year's reserves of this type of material. You will have a reduction in dollars. Without anybody intentionally padding the thing initially. It does not bother me initially to see a statement of the aggregate that anybody would like, whether they can justify it in good conscience or not, although it is difficult to handle and causes problems.

I recall many such instances. I recall an instance back in 1952 or 1953, and it serves today—there was a general policy that we wanted some mobilization reserves of Army equipment. But we had also decided as a general policy—and this was Secretary Lovett—that in the area of vehicles, that on the very-hard-to-get things, we would have substantial reserves; on the moderately difficult ones, we would have a lesser percentage of reserves; and on the commercial-type items,

we would have a minimum of reserves. Yet down in one wing of the building there were 5 officers in charge of 5 programs for 5 different kinds of vehicles. All of the five thought that they ought to have the same percentage, approaching 100 percent reserves, whereas Lovett felt that 10 percent of a theoretical reserve of commercial trucks was all right, but when we got the two and one-half, rather easily built trucks, that 25 or 30 percent was all right, and on the very difficult ones, 50 percent.

Yet the budget came in initially on all of those for almost a maximum mobilization reserve, not taking that into account.

Now, that would cause a big dollar reduction. But did it affect the real security of the country?

Senator SYMINGTON. In other words, what we have is certain goals, and the military say, "This is what we need to reach those goals," for example, a 137-wing program. And then you analyzed the budget and say, "Based upon what you have given us and our analysis of certain things"—and trucks is an excellent illustration—engine life might be another, and lead time might be a third, if we are just talking about appropriations and not expenditures, but then you say, "We think you can do it for less than that." Is that right?

Mr. McNEILL. That is right.

Senator SYMINGTON. And, of course, that decision of the Secretary of Defense is final. But let me ask you this question—

Mr. McNEIL. Let me add just one thing. You mentioned engines; and that is a difficult one. A couple of years ago, some engine requirements were shown in the budget for 225 percent spares as compared with installed equipment.

Senator SYMINGTON. Yes, I recall that.

Mr. McNEIL. But if you examined currently what was going on at Sacramento and Norfolk and the naval installations, you would find that in the meantime the life of that engine had been extended to the point when probably 70 to 75 percent spare engine was about right. At that time, we were not sure that that would be true, and the budget went in for 110 percent spares. Before the money was spent, actually, it was brought down to 75. But we had 6 months in order to prove it.

Senator SYMINGTON. Yes. I think it is a very constructive and logical saving. That is the reason I mentioned engines.

Mr. McNEIL. Yes; those kinds of things.

Now, we have another one right at the moment where we submitted a budget in December in good faith, calling for a certain number of very complicated computers. I think there is a requirement there. We now find that we are not going to be able to get them.

Senator SYMINGTON. So that automatically reduces your necessity for appropriation, and in no way affects your expenditures; right?

Mr. McNEILL. Well, our expenditures will be down a little bit because we are not going to get them as fast. They are running into some difficulty—

Senator SYMINGTON. Oh. I thought you said you did not need them.

Mr. McNEILL. No. I said I think the need is there.

Senator SYMINGTON. Oh, I understand.

Mr. McNEILL. But they are not going to be able to make them.

Senator SYMINGTON. Now, let me ask you this question. What factors were used in setting up these targets or limitations by the Office of the Department of Defense prior to receiving the judgment of the respective service Secretaries and the members of the Joint Chiefs of Staff? What factors were used?

Mr. McNEILL. I do not believe I quite understand your question, sir. Would you mind—

Senator SYMINGTON. You mentioned in your previous testimony, “targets,” and this question the staff has asked me to ask. “What factors were used in setting up these targets or limitations by the Department of Defense prior to receiving the judgment of the respective service Secretaries and the members of the Joint Chiefs?”

Mr. McNEIL. Well, it didn’t work quite that way, sir.

Senator SYMINGTON. Now, you describe that for us, will you?

Mr. McNEIL. First—we are getting considerably away from this bill, but it is a very pertinent subject—

Senator SYMINGTON. I asked you that—

Mr. McNEIL. Well, in the first place, the Chiefs are the ones who recommend the basic force structure.

Senator SYMINGTON. Let me just interrupt you there. I do not think we are getting away from the bill, because we started talking about the position of the Comptroller in the question of policy.

Now, with the premise that the Comptroller is a staff man and not an operating man, I am in the most complete agreement that he should be in policy, because through him is the best chance for good management through good cost control, you see.

Mr. McNEIL. Except that the final decision should not be his.

Senator SYMINGTON. I agree with that, of course. As I say, that is the premise of my statement, that he is a staff man. No staff man makes a final decision.

Mr. McNEIL. Yes.

Senator SYMINGTON. But on the other hand, if you say that the Comptroller should be a man who goes beyond simple accounting procedure, I completely agree. You would never run a business unless you interpreted the figures to have better management. You would go broke in a relatively short time.

On the other hand, if that is true, then I think we have a right to say as part of the consideration of the bill as to what is the nature of the Comptroller’s functions when he functions in a policy field beyond the accounting field. Is that not a fair observation?

Mr. McNEIL. Yes, that is.

Senator SYMINGTON. All right.

Mr. McNEIL. Of course, the question on the whole process of developing a plan goes a bit beyond the Comptroller function.

Senator SYMINGTON. Yes, except that the Comptroller is involved through the delegation of policy—and you, I think, said that it had to be done through the money when the decision was made. Then I would like to know what is the nature of the—

Mr. McNEIL. I think I said “frequently.” If not, I would like to amend it.

Senator SYMINGTON. Frequently. Well, let us get into electronics and take one of those “frequencies.”

Mr. McNEIL. Well, going back to the other, first, in the case of the basic force structure, which is the key, the Chiefs made a recommendation in 1953 for what was popularly called the New Look. This

was really a 3-year target for force levels. That established for the Army a force in terms of men in the neighborhood of 1 million men. It established a force structure for the Navy of about 1,000 ships of which about 400 would be warships, and for the Marine Corps 3 divisions, and 3 air wings, and for the Air Force 137 wings, broken down by it heavy bomber and bomber and fighter wings, and so forth.

Now, the Chiefs have never——

Senator SYMINGTON. Excuse me just a minute. As a matter of technical information, as an instruction to me, isn't that Marine establishment by statute as well as by decision of the Department?

Mr. McNEIL. I believe it is, sir.

Senator SYMINGTON. Wouldn't that be a little different from the other three?

Mr. McNEIL. Yes. But I think this came after the establishing of the so-called New Look as a target.

Senator SYMINGTON. Yes. When you revised the National Security Act of 1949, 3 divisions and 3 wings were spelled out for the Marines in the bill, were they not?

Mr. McNEIL. No. I think it was in another act or another hearing or another resolution, but not in the Security Act, sir.

Senator SYMINGTON. All right. Go ahead.

Mr. McNEIL. But anyway, that force structure also includes the number of personnel for the 3 services, or the 4 services, if you count the Marines as the fourth service.

The Chiefs, however, deal with the major force structure, and not with many of the collateral units, which take about half of the resources in terms of people and materiel. That is, there are always tow-target squadrons and small boats and tugs and those things which do not come into the basic structure.

The Chiefs' recommendations, as approved by the Security Council and the President, include a general statement of the degree of readiness, that they are shooting for. Considered also is whether they are planning for the long pull and whether they are shooting for a certain date. If they are shooting for a certain date, then things are more the result of mathematics. If they are shooting for the long pull, it requires a great many management and judgment decisions.

Following that, there is usually issued by the Secretary of Defense a guidance statement. That is made up based on drafts, and participated in by Army, Navy, and Air as well as the Assistant Secretaries of Defense for research, engineering, and supply, and so forth. Finally it is issued.

Now, there again appear broad statements and frequently the word "adequate" is used, which can be subject to a great many interpretations, of course, depending upon how close the people are to an understanding of what you are trying to accomplish.

Based on that, on those two things, Army, Navy, and Air begin the preparation of their more detailed plans as to new procurement and as to the bases they desire be operated and maintained.

Incidentally, the force plan also includes the number of aircraft by types and divisions and regiments to be maintained.

There is one more thing that is involved, and that is the general statement as to the level of mobilization reserves by classes of items that are to be achieved in any particular time period, that is, X

months of supply will be on hand and maintained indefinitely until the policies change.

Then Army, Navy, and Air prepare their estimates and using certain criteria, they will estimate the number of flying hours, the number of steaming hours, the number of maneuvers, for example, in the Army. Those will be translated into materiel requirements and requirements in terms of people and employment.

Those estimates are submitted then, first, in Army, Navy, and Air and in that process invariably there are a number of things that were brought to the attention of the chiefs of service and the Secretary, that they do not plan to do in this particular year.

As a consequence, some estimates are changed.

The three budgets are then submitted to the Secretary of Defense, and in that process of examination the research part will be pulled out and go down to research, items in which you wanted to get technical views, "will this project for solid fuels, or some other type of thing, will this have a chance?" "How much effort should be put on this or that project in this time span?"

The Assistant Secretary will make his views known, such as—"This is not ready;" "This looks pretty good." In supply and logistics the same approach: "This looks good;" "This requirement for a food level, clothing level, or what not, is about right;" "This goes way beyond anything in the basic policy." And the same way in the medical field and in construction.

Now, getting back to this bill, we attempt to pull all of those things together, because we have attempted to live with these programs as we have gone along. Then we present a markup, if you want to call it that, and give reasons as to why some of those things should not be in. That points up many policy issues: should we or shouldn't we go ahead at this time?

Then we attempt in a series of meetings, which this last year ran about 3 weeks, with the Secretary of Defense, the Deputy Secretary, and the Secretaries and chiefs of the services around the table considering all the reasons for and against particular programs to come to certain conclusions.

Senator SYMINGTON. Let me interrupt you there. I am tremendously interested in this testimony you are giving. You mentioned policy. Are there any policies besides military preparedness that influences the decisions? Before you answer that, I want to give you a thought which I think is important. In the hearings, open hearings, I might add of the Senate Military Preparedness Subcommittee, Secretary Wilson stated that he was surprised at what the results did to the Air Force. That is pretty close to verbatim, and Secretary Keyes added to that, "we were very surprised to have Mr. Talbott show us what this did to the Air Force."

That is on the record in May of 1953, I think, during hearings on the 1954 budget. Therefore, it obviously was not in that case a question of strictly military preparedness.

I want to mention that because you have been a very fine witness this morning and I did not want, in any sense, to risk trying to mousetrap you on that question.

Mr. McNEIL. No, I did not think you did.

Yes, there are other considerations. One is that if the basic policy is right—and that is, are we trying to develop a machine which avoids one of the old weaknesses we used to have of peaks and valleys, and shooting the works this year and drying up next—yes, those things apply. How can we keep this thing running rather smoothly for 3 or 4 years, not knowing whether something could happen today or 5 years from now, instead of shooting the works and drying it up and not having that item, perhaps, in production?

Yes, those things all enter into it.

Senator SYMINGTON. Let me rephrase it for you this way so that I can be clear. In a published editorial recently in this town, it said that the production of B-52 bombers was less than 25 percent of 17 a month, and there are not many people who cannot work out that less than 25 percent of 17 is 4, or under.

Now, just put that over here like that, No. 1, and then say, No. 2, that we all agree that the B-36 and possibly the B-47 also are getting pretty old. I know it was designed in 1940 before we got into the war.

Now, anybody will agree, I think, that as soon as we can replace the B-36's with the B-52's or something even improved, the better it will be. And, therefore, wouldn't you say that economic factors are involved in the production schedule of the B-52's to replace the B-36's?

Mr. McNEIL. No, I don't—

Senator SYMINGTON. My staff member here says that Secretary Wilson has talked about taking into consideration "what the economy can stand." I am trying to be completely frank in the questioning. Now, you talked in analyzing the bill about the policy aspect of the controller.

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. So, I am asking you from the technical standpoint, isn't the question of what the economy can stand one of the primary matters discussed at the time that the military budget is formulated finally for presentation to the Bureau of the Budget?

Mr. McNEIL. Yes, but I believe more in relation to what I said a minute ago—what is the smartest thing to do, in trying to avoid peaks and valleys and keep the whole program moving at a reasonably high level for a long time? It so happens that that also fits into the other definition to a degree.

But taking the B-52 that you mentioned a minute ago—and I am probably going a bit beyond my scope here in mentioning it—

Senator SYMINGTON. That is all right, I am sure we would be most interested in any thought you had on it.

Mr. McNEIL. I do recall that almost 2 years ago, when the idea was presented of establishing a second facility for the B-52, it was known that considerable money would be involved. There was no question of whether there was a ceiling or no ceiling, or whether the economy could or could not stand it. It was thought that it was a good management decision at the time, to get ready to go beyond the one facility then operating.

There was no question of a ceiling. It just seemed like a smart management decision to make under all the circumstances.

I think everyone is glad now that did get underway, because you probably are quite familiar with the fact that they will start to produce their first aircraft at the second source much earlier than would have been the case had we waited until this year, or even last fall.

Senator SYMINGTON. Yes. Now, let me ask you one other technical question along this line because we are getting to the point now where we will have to recess and come back at another time convenient for the committee. But, I would like you to finish your statement.

On this question of impounding the money on the part of the executive branch, as you know, that was done to the tune of a good many hundreds of millions of dollars in 1948, and I thought it was wrong then and so said. Then, in fiscal 1956, it was done with respect to the Marines. The money was impounded and the Marines were not maintained at the strength that the Congress wanted. It was not a question of the Congress failing to furnish the money. The money was appropriated. It was a question of carrying out the congressional position.

I want to ask your comments on the wisdom of that. What is the technical aspect of what happens when the Congress appropriates that money and it isn't spent? Does it go back to the Treasury or how do you handle that from the standpoint of the services?

I think in the case of the Air Force in 1948, it was \$800 million, \$700 million, or \$800 million. I believe it was \$800 million in the final compromise.

But, anyway, in the case of the Marines, it was \$46 million, as I remember it, or thereabouts.

Mr. McNEIL. \$36 million, I believe.

Senator SYMINGTON. \$36 million. Well, whatever it was, I will bet that I am closer with the \$46 million than you are with \$36 million.

Mr. McNEIL. You usually are, sir.

Senator SYMINGTON. What happens to that money? Is it just not spent and returned to the Treasury?

Mr. McNEIL. That is right.

Senator SYMINGTON. What is the technical procedure in that case?

Mr. McNEIL. Well, in that case I believe the total appropriation was about \$600 million or thereabouts.

Senator SYMINGTON. Let us talk about the Marines. Is that it?

Mr. McNEIL. Yes; just the Marines for pay and allowances.

Senator SYMINGTON. About \$600 million?

Mr. McNEIL. Yes; about \$600 million for pay and allowances for the Marine Corps.

When the strength figures were established and the curves of intake and outgo were established, the decision was made in the administration that they would gear the strength in fiscal year 1956 into whatever plan would be presented to the Congress this year, which was about 205,000 men. The Marines worked out the best system they could to relate the intake and outgo to the training load. That took so much money and, therefore, they asked for an apportionment of the portion of the appropriation needed for that resulting strength. The difference just was not touched and still remains there.

Senator SYMINGTON. That would be about 50 percent of whatever that figure was. I think you kept about 50 percent.

Mr. McNEIL. Something like that, sir.

Senator SYMINGTON. Now, is that money applied to other naval things?

Mr. McNEIL. No.

Senator SYMINGTON. Or is it just simply not spent?

Mr. McNEIL. No; it just stays there because it has not been released for use.

Senator SYMINGTON. I see, it just stays there. Is it dead money?

Mr. McNEIL. It will be dead on June 30.

Senator SYMINGTON. It will be dead on June 30?

Mr. McNEIL. Yes.

Senator SYMINGTON. At this time, it will not.

Mr. McNEIL. It will not be available for any other obligational use.

Senator SYMINGTON. I see. It is just not picked up from the Treasury Department to pay bills; is that right?

Mr. McNEIL. That is right.

Senator SYMINGTON. I see.

Now, what page are we on here? We are almost through. I think we are on page 12 of 13 pages.

Would you like to file the rest for the record at this point?

Mr. McNEIL. I just might make one statement on page 13.

Senator SYMINGTON. Senator Martin suggested that we go ahead. I was frankly thinking of his time.

Senator MARTIN. Yes.

Senator SYMINGTON. Will you complete your statement, Mr. Secretary?

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. Fine.

Mr. McNEIL. The bill requires the head of each agency to seek, and presumably be guided by, the Assistant Director for Accounting, Bureau of the Budget, a proposed new statutory office, with respect to all Comptroller appointments.

We believe that this advice should be on a voluntary basis and not written into the statute.

Section 3 would require simplification of the allotment system although it is questionable whether such a provision of law is required. The Department of Defense concurs in the objective of this provision, provided it is understood that some military department installations may have more than one operating unit located thereon. Considerable progress has already been made and is continuing rapidly within the Department of Defense toward achievement of this objective.

Senator, I would like to mention that we are trying to make progress toward improvement of this allotment system, which has been archaic and almost unworkable and we want a single allotment to a field commander to get an identifiable job done. Where there is some confusion, however, is that we have pieces of real estate on which there are 3 or 4 separate, different, and distinct kinds of activities.

Senator SYMINGTON. Describe the allotment. I think I understand, but just in case I do not, describe the allotment-of-funds concept as briefly as you can. I am only thinking of defining the term.

Mr. McNEIL. In our case, the definition of allotment is the advice of approval of an operating budget of a field installation.

Senator SYMINGTON. In other words, what you are trying to do is locate the cost of that operation against a specific installation, instead of having an overall setup where it is very hard to segregate the costs of that particular installation? Is that right?

Mr. McNEIL. That is right. But if there was only a single-purpose installation with a single fence around it, we want to have it have its own operating budget.

Senator SYMINGTON. And your purpose in doing that is to be able to pin on a particular supervisor or commander or the particular place in question as to whether or not he is operating poorly or better or worse?

Mr. McNEIL. That is right. But we want to give him a single pot of resources to get an identifiable job done instead of giving him 20, 30, or 40, as has been the case in the past.

Senator SYMINGTON. I see.

Mr. McNEIL. One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross-servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1 by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

Just to explain that, we want to go one step further, and I think there is sentiment developing to do it, which will improve our whole operation in defense, at least, and that is providing the installation commander with a single pot of resources to operate a substantial identifiable function at that installation, but then if he takes on work from a neighboring installation, that they pay him, and he, without further administrative complications or paperwork, uses those reimbursements to do the work for his neighbor.

Senator SYMINGTON. Yes.

Mr. McNEIL. It has been one of the things that has bothered the Department of Defense a great deal in recent years.

Senator SYMINGTON. Let me make one comment on that. You will never find a good machine-shop foreman or foundry foreman who is really good who is not carrying around in his pocket what his operations were that month or the previous month, as against the month before that. And that is what you are trying to instill in the military; is that right?

Mr. McNEIL. Yes, sir, and particularly in our industrial and commercial type operations, and to the extent that we can in the combat side without encumbering them with a lot of paperwork.

Senator SYMINGTON. Right.

Mr. McNEIL. Now, section 4 of the proposed bill would require establishment of a single account under each present annual appropriation. We think this would simplify integration of accounting for costs and obligations, which is one of the most important objectives of the bill, as well as permit the agencies to settle claims against appropriations. But the provision in section 4 is really one you are dealing with in the other bill which you have considered. I think you have an amendment to the other bill which is acceptable, and after

we go along under that for a while, it is possible that you may wish to consider in 1, 2, or 3 years, a further modification to achieve this second step of the Hoover Commission recommendation.

Senator SYMINGTON. Fine.

Mr. McNEIL. But I think we have to grow up to it.

Senator SYMINGTON. Senator Martin, have you any questions?

Senator MARTIN. No.

Senator SYMINGTON. I would like to say that we will recess the hearing.

Mr. Secretary, Mr. Brasfield, the Assistant Comptroller General, was kind enough to come.

Is he here? Mr. Brasfield?

Mr. BRASFIELD. Yes.

Senator SYMINGTON. I want to apologize that we took this long, but we have been trying to find out what these bills are all about. And inasmuch as you object, as I understand it, to some of the testimony of the Department of Defense, if you would appear here at 10 o'clock tomorrow, you have at least had an opportunity to get in detail their position on this matter.

We would appreciate it very much.

Mr. BRASFIELD. Thank you, sir.

Senator SYMINGTON. Thank you very much.

We would like to say, Mr. Secretary, that there are some reservations on the part of the Comptroller General's Office with respect to your position, and, therefore, although you have been very good with your time and I am sure probably cannot make it tomorrow, we would appreciate having some representative here from your Department whom you have authorized to speak for your position.

Mr. McNEIL. Yes, sir.

Senator SYMINGTON. And unless there is any further business, we will recess, then, until tomorrow at 10 o'clock.

Mr. McNEIL. May I make one suggestion, sir?

Senator SYMINGTON. Yes, indeed.

Mr. McNEIL. In looking into this whole problem from the Government's side and how we could get some business application in Government, I talked to Dr. Lloyd Morey, who until recently was president of the University of Illinois, and who has done considerable work on the problems of Government, Federal and State, financing. He was in the Pentagon one day recently and made what I thought was the clearest statement of the differences between Government and business financial and accounting requirements, that I had ever heard, both from the congressional viewpoint and the spending agency viewpoint.

I said to him before he left, "That was the best oral statement of the problem that I have heard. Would you mind writing it down for me?"

He did.

Because of his grasp of it, it is possible that this subcommittee might wish to call him as a witness.

Senator SYMINGTON. Would you like to submit it for the record?

Mr. McNEIL. I would like to submit this for the record if I may, because it is an excellent statement of the problem.¹

¹ See p. 227 for Comments on Federal Budgeting and Accounting, by Dr. Lloyd Morey.

Senator SYMINGTON. Fine. We will discuss it with the subcommittee as to whether or not we will call him as a witness. What was his name, again?

Mr. McNEIL. Dr. Lloyd Morey. He was president of the University of Illinois until about last September. He has since retired. But he has had an interest in this problem for years, and has made as clear a statement as I have seen of the problem.

Senator SYMINGTON. I want to say for the subcommittee in the absence of the regular chairman that I think your testimony this morning has been very constructive. We deeply appreciate the time that you have given to this problem.

Senator MARTIN. I would like to second your statement, Senator.

Senator SYMINGTON. Thank you, Senator. And thank you, Mr. Secretary.

Mr. McNEIL. Thank you, sir.

(Whereupon, at 12:45 p. m., the subcommittee recessed to reconvene at 10 a. m., Wednesday, March 28, 1956.)

(Prepared statement referred to by Mr. McNeil, on p. 162 and Mr. Lanman, p. 89 follows :)

STATEMENT OF DEPARTMENT OF DEFENSE VIEWS ON S. 3199

A bill to improve governmental budgeting and accounting methods and procedures, and for other purposes.

This bill covers many recommendations in the Hoover Commission Report on Budget and Accounting. It covers important methods and procedures in governmental budgeting and accounting. These are administrative matters which could be handled without legislation, although when enunciated in law may have an important effect on expediting desirable improvements.

Our comments which follow are selective and represent our comments to the Bureau of the Budget on the recommendations in the Hoover Commission reports. These comments have not been approved by the Bureau of the Budget or by the President. Copies of the comprehensive views of the Department of Defense on the Hoover Commission recommendations covered by this legislation are available and we should like, in the interest of time, to place them in the record.

COST BASED BUDGETS, ACCOUNTS, AND REPORTS

Section 1 (b) of the proposed bill would amend section 216 of the Budget and Accounting Act to require the use of cost-based budgets in each department and establishment and their subordinate units for purposes of administration and operation, including fund control. It would also require the use of cost-based budgets in all requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau of the Budget.

We believe the use of cost-based budgets on the basis outlined hereinafter is desirable. Loose application of this concept as advocated by many without knowledge of Government requirements and without Government management experience, could lead to many difficulties.

It should be clearly understood that the use of cost-based budgets should not result in eliminating the requirement for budgeting for expenditures and for obligational authority to be provided to an agency, by appropriation or otherwise, in order to incur obligations in advance of incurring costs. The Department of Defense acquires a great deal of materiel and undertakes construction under long-term contracts far in advance of expenditures or delivery of materiel. While it might be necessary to point this out, there are some who in urging the use of cost-based budgets, have not fully recognized the requirement for operating within appropriation limitations based upon necessary financial authority for obligations to be incurred in advance of costs. Some have also seemed to indicate there is a basic conflict between budgets based on cost and those based on requirements for obligational authority. Actually there should be no conflict. Obligational authority should be requested and provided in terms of

cost, although the cost impact will be in future fiscal periods. Likewise, fund control within an agency must be based upon granting obligational authority to subordinate units.

While we note no feature in the bill which would change the present concepts of providing obligational authority to departments and agencies through appropriations, nor which would revise existing laws with respect to the administrative control of obligations within appropriation authority provided by Congress, we believe the bill might have been worded to indicate more clearly that no such changes are intended. Moreover, we believe it would be helpful if this proposed revision of section 216 were to contain an additional definition of what is meant by the cost basis of budgets. For example, in the case of some programs, cost means "acquisition cost," as in the case of construction of public works, and procurement and production of materiel. In the case of operating and administrative-type programs it means cost of goods and services consumed. However, it should generally be understood that cost of depreciation of facilities procured under appropriations would not be included as an operating cost by activities utilizing such facilities, except as otherwise authorized by law, as in the case of revolving funds where the acquisition of capital assets is financed by such funds and depreciation is permitted to be charged as a cost of the goods or services sold by the activities operated under such funds.

Therefore, the following clarifying amendments of the proposed bill are suggested for consideration:

(1) Change the last sentence under section 216 (a) to add the italicized clause: "Fund allocations within the departments and establishments shall be made on the basis of such cost budgets, *considering the lead time which must be allowed in incurring obligations in advance of incurring costs.*"

(2) Insert in section 216 (c) the wording italicized above after the word "shall be prepared on a cost basis."

(3) Insert in section 216 (d) the italicized words: "The budget required by section 201 of this Act to be transmitted to the Congress shall contain information on program costs and accomplishments as well as *obligations and expenditures.* * * *

(4) Add section 216 (e) to define the cost basis of budgets as follows:

"(e) The cost basis of budgets, as provided in this section shall mean:

"(1) cost of acquisition in the case of programs for construction of public works or procurement and production of materiel.

"(2) cost of goods and services consumed in the case of operating- and administrative-type programs.

"(3) depreciation of capital assets employed shall be excluded as a cost except in cases specifically authorized by law."

While the proposed bill does not provide for changing the basis of appropriations from obligational authority to accrued expenditures or costs, as recommended by the Hoover Commission, we would like to mention that the Department of Defense is not opposed to that idea and believes it has merit, provided the concept of obligational authority is retained, as for example by the provision of separate contract authority by the Congress, in the manner recommended by the Hoover Commission. In fact, the Assistant Secretary of Defense (Comptroller) made a concrete written proposal on this subject in February 1953¹ at the request of Senator Byrd. We shall be glad to provide this committee with a copy of the memorandum prepared for Senator Byrd (see p. 92).

BUREAU OF BUDGET REPRESENTATIVES IN EACH AGENCY

Section 1 (c) of the proposed bill would require the Bureau of the Budget to assign personnel to serve in each principal department and agency.

It is questionable whether the Budget and Accounting Act should be amended as proposed to prescribe the designation and assignment of Bureau of the Budget personnel to serve in the principal departments and establishments, under rules and regulations of the President, for the purpose of maintaining continuous review of budget preparation and administration and assist the agency in carrying out its managerial functions and responsibilities. In particular there is no good reason why the law should require the assignment of "no more than two persons for each principal subdivision of a department or establishment," nor that the person so assigned "shall possess the combined skills of the statistician, cost accountant, administrative expert, and program analyst." This entire provision should be omitted from law because it is an administrative matter.

Section 2 (b) would amend section 113 of the Budget and Accounting Act to require each agency to maintain its accounts, on an accrual basis in accordance with standards prescribed by the Comptroller General, to show currently, completely, and clearly the costs, resources, and liabilities of such agency. It is further provided that the accounting system required shall include monetary property accounting records. These accounting requirements naturally should accompany the use of the cost basis of budgeting.

It is doubtless not intended to imply that an agency should maintain its accounts exclusively on an accrual basis, because that would mean the agency would not maintain its accounts on the basis of available appropriations and administrative subdivisions thereof in the manner otherwise directed by the Congress in order to prevent the overobligation of funds and incurring of deficiencies prior to the recording of costs or liabilities in the accounts on the accrual basis. In order to adequately control its funds, each agency must continue to account for obligations incurred in advance of costs. In other words, it must go beyond the accrual basis of accounting as generally practiced in industry. Moreover, it is necessary that each agency shall maintain accounts on a cash basis, as also required by the Congress, in accounting for appropriations on the books of the Treasury, in determining the annual cash surplus or deficit of the Government as a whole, and in order to account for expenditures in relation to amounts budgeted.

There has also been some misunderstanding on the part of some accountants outside the Federal Government of the special accounting needs of the Government and some impatience with the maintenance of the obligation and expenditure bases of accounting. There have been those also who, while recognizing requirements for maintenance of accounts on the basis of obligations and expenditures, have proposed the maintenance of separate accounting systems on the accrual basis, including resources, liabilities, and cost of operations, independent of, or overlapping the accounting for the appropriated funds for which the agency is accountable. In general, it is usually proposed that such separate accounts be reconciled with the appropriated fund accounts so far as obligations and costs are related, but generally there is no consideration given to accounting for resources and liabilities in relation to the specific appropriation and fund subdivisions.

While we agree that the use of the accrual basis of accounting is desirable to the extent of providing the same basis of accounting as required for budgeting on a cost basis (as previously explained), we believe it is important that there be no indication in the bill of either implying possible elimination of the obligation and expenditure basis of accounting for funds or any possible requirement to duplicate such accounting through the use of another system, even with the understanding that there be reconciliations between the two systems. The accrual basis of accounting can be integrated within the basis of fund accounting without the use of any separate system of accounts, nor requirement for a reconciliation between separate cost and obligation accounts. However, such integration is often facilitated by the use of revolving funds, as in the Department of Defense, for financing inventories of consumable materiel and production of goods and services in industrial- and commercial-type activities, for sale to activities financed by appropriated funds.

The proposed bill would provide that the Comptroller General prescribe standards for implementing the provisions for establishing the accrual basis of accounting. We believe this responsibility should be in the executive branch of the Government, in the Director of the Bureau of the Budget. Such standards are inextricable from standards for the cost basis of budgeting. Moreover, a further provision in the bill establishes the position of Assistant Director of the Bureau of the Budget for Accounting to spearhead accounting improvements in the executive branch. This should mean transfer of leadership in the joint accounting program to the Bureau of the Budget.

For these reasons we suggest a complete restatement of the proposed section 113 (c) as follows:

"(c) As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with standards prescribed by the Director of the Bureau of the Budget, cause the accounts of such agency to be so maintained as to show completely and clearly all expendable resources, liabilities, available balances, and costs incurred as well as obligations incurred, under each appropriation and allocation or allotment thereof, with a view to facilitating the preparation of agency reports to include cost data as required by section 216 of the Budget and Accounting Act of 1921. In addition, the ac-

counting system required shall include adequate monetary property accounting records, integrated with the appropriated fund accounts. Wherever desirable to facilitate this integration, the use of revolving funds shall be encouraged to finance procurement and inventories of consumable materiel and production of goods and services for sale on a reimbursable basis to consuming activities financed by appropriated funds."

STAFF OFFICE OF ACCOUNTING

Section 2 (c) of the act would further amend the Budget and Accounting Act by adding section 120 to establish in the Bureau of the Budget under the supervision of the Director thereof a staff Office of Accounting, the head of which shall be the Assistant Director of Accounting.

The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of effecting improved integrated budgeting and accounting for the Government as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvements go hand in hand and both are properly placed within the executive branch of the Government. Therefore, we believe it desirable that the Budget and Accounting Act be amended, consistent with the establishment of this function in the Bureau of the Budget, to provide that all budgeting and accounting principles and standards should be established by the Director of the Bureau of the Budget in the executive branch of the Government rather than by the Comptroller General.

COMPTROLLERS FOR EXECUTIVE AGENCIES

The proposed bill would also amend the Budget and Accounting Act by adding section 121 which would establish requirements for the head of each executive agency to appoint a comptroller to be directly responsible to him. It also provides certain specific functions and duties of the agency comptrollers. Criticism of this section is as follows:

(1) It is not necessary in the case of Department of Defense, because title IV of the National Security Act covers this subject on a much broader basis. (It is important, however, that the present proposed legislation shall not supersede the provisions of title IV, although there may be some question as to whether the proposed law, if passed, would have such effect.)

(2) The Comptroller's functions, as provided by the bill (in the language of the statement of Department of Defense views) "greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, his budget responsibilities are even greater. The Commission's report does not adequately set forth the concept that the Comptroller (or the Assistant Secretary for Financial Management) should provide an independent review and analysis of budgets, as well as reports on performance, and that he should assist the Secretary of the Department as a coordinator in reconciling and balancing with each other, the budget claims for financial support of the several fields of operating interest (each of which has its advocate at top level) with the potential resources, including spending authority granted by the Congress. This does not mean that the Comptroller (or Assistant Secretary for Financial Management) actually controls the operations, or serves as a general manager, or is the superior of his teammates who have responsibility for actual operations in their respective fields. The Department of Defense has been active in the development of this concept in the Federal Government."

(3) The bill requires the head of each agency to seek, and presumably be guided by, the advice of the Assistant Director for Accounting, Bureau of the Budget, a proposed new statutory office, with respect to all comptroller appointments. (It is believed the use of such advice should be on purely a voluntary basis. See Commission recommendations Nos. 10 and 12 and Department of Defense views thereon. This provisions should not be a statutory matter.)

SIMPLIFICATION OF ALLOTMENT SYSTEM FOR ALLOCATING FUNDS

Section 3 would require simplification of the allotment system although it is questionable whether such a provision of law is required. The Department of Defense concurs in the objective of this provision, provided it is understood

that some military department installations may have more than one operating unit located thereon. Considerable progress has already been made and is continuing rapidly within the Department of Defense toward achievement of this objective under guidance of the Assistant Secretary of Defense (Comptroller).

One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross-servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1, by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

SINGLE AGENCY ACCOUNTS

Section 4 of the proposed bill would require establishment of a single account under each present annual appropriation. This would simplify integration of accounting for costs and obligations, which is one of the most important objectives of the bill, as well as permit the agencies to settle claims against appropriations which presently lapse.

This provision is also the subject of S. 3362 upon which we have made a previous statement.

(Attachment to views on S. 3199)

DEPARTMENT OF DEFENSE VIEWS ON IMPLEMENTATION OF REPORT ON BUDGET AND ACCOUNTING

(These comments are those of the Department of Defense and should not be considered as representing the position of the administration. Also they do not necessarily represent the final conclusions of the Department.)

By Commission on Organization of the Executive Branch of the Government,
October 1955

RECOMMENDATION NO. 1

(a) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(b) That in order to do this, among other things, it should place in important agencies one or more well-qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(c) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Department of Defense position

Concur in principle.

Comments

The Bureau of the Budget and the Department of Defense already have long-established arrangements whereby well-qualified employees of the Bureau are assigned on a continuing year-round basis to review of agency budgets and other aspects of financial management of all components of the Department of Defense. Much of these reviews are conducted on the site. The constructive results of these arrangements are acknowledged. The staff of the Office of the Secretary of Defense is also engaged in reviews of agency budgets and other aspects of management of the military departments; this should mean a lesser requirement for review by representatives of the Bureau of the Budget.

Parts (a) and (c) of this recommendation relate to expansion of the Bureau and increase of its resources. It is believed "reorientation" of the Bureau's emphasis on managerial functions and on operating budgets rather than upon formulation of the annual President's budget might result in more effective utilization of present personnel and resources.

Implementation

Primarily by the Bureau of the Budget but Department of Defense will cooperate.

RECOMMENDATION NO. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Department of Defense position

Concur.

Comments

The Department of Defense believes this recommendation to be a constructive one and would cooperate wholeheartedly in its implementation. However, it is addressed to the President and the Bureau of the Budget for application upon a governmentwide basis. If this recommendation were implemented, great care would be required in selecting the types of data to be included and the manner of presentation; there would be great danger that such reports would not serve the intended purpose.

Implementation

Department of Defense will cooperate in the establishment of such a program, if it is established on a governmentwide basis.

RECOMMENDATION NO. 3

See recommendation No. 7.

RECOMMENDATION NO. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Department of Defense position

Concur. See recommendation No. 5 below for comments and implementation.

RECOMMENDATION NO. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Department of Defense position

Concur.

Comments

These two recommendations are a statutory requirement of section 403 of the National Security Act, as amended. In this respect, the following significant statement of basic principles is contained in the Senate Armed Services Committee report on the National Security Act Amendments of 1949:

"Basic principles.—The underlying principles of the performance budget are clear and simple. The performance budget contemplates—

"(a) that all costs relating to a logical and identifiable program be included as a project or a budget program for presentation and justification by the Department concerned to the Bureau of the Budget, the President, and the Congress, and for administration and reporting after the appropriation of moneys;

"(b) that there be a logical and, so far as practical, uniform grouping of projects or budget programs by the primary functions of the military departments, with this grouping paralleling so far as possible, the organization and management structure;

"(c) that there be a segregation between capital and current operating categories."

While much progress has been made by the Department of Defense (with the aid and encouragement of the Appropriation Committees), there are still some

desirable additional improvements required in order to attain the full objectives with respect to both recommendations.

One important special problem which is now being studied, by request of the House Appropriation Committee, concerns the budgeting, appropriation, and accounting for the element of military personnel cost of support-type activities like any other elements (objects) of cost of such activities—that is, such costs should be appropriated for and accounted for as part of the total costs of the respective programs, functions, or activities. It is noted that the Commission's report appears to endorse this objective (see p. 38).

Implementation

Department of Defense will continue development in connection with implementation of title IV of National Security Act, as amended.

RECOMMENDATION NO. 6

See recommendation No. 7.

RECOMMENDATION NO. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely, charges for the cost of goods and services estimated to be received.

RECOMMENDATION NO. 6

That executive agency budgets be formulated and administered on a cost basis.

RECOMMENDATION NO. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

RECOMMENDATION NO. 14

That Government accounts be kept on the accrual basis to show currently, completely and clearly all resources and liabilities, and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendations 7, 6, 3, and 14 are related with respect to the technical bases of budgeting and accounting for governmental funds for the purposes of congressional, Presidential, and agency control. It is desirable to comment upon them as a group. These four recommendations deal with the financial management process through budget formulation and appropriation, the operating budget and establishing allocations and allotments, and account keeping and financial reporting. The Commission proposals in this area include (1) basing appropriations on estimated accrued expenditures, and (2) in addition providing congressional contract authorizations to cover procurement, construction, etc. Only the first aspect of this proposal is included in the numbered recommendations, leaving the second aspect to be extracted from the supporting text of the Commission report (see p. 23). It is possible to deal with the matter more clearly if both aspects of the Commission proposal, as described on page 23, are recognized as included.

Department of Defense position

Concur in principle but believe that recommendations as stated are not complete. See comments below.

Comments

Bases of budgeting and accounting.—The use of the “accrued expenditure” and “cost bases” of budgeting and accounting would contribute greatly to financial control at all levels. However, it is important to properly define these terms.

The “accrued expenditure” basis should be understood to include charges for progress payments under long-term contracts as well as charges for the cost of goods and services received during the budget year under other contracts and employment arrangements, as recognized by the task force on page 38 of its report. In the case of construction work and procurement of much heavy military equipment, contractual payments are required to be made during the course of

performance of the contracts in order to finance the contractors, and such payments are in advance of the receipt of the goods or completion of construction—such amounts also represent accrued expenditures when properly charged.

The cost basis should be understood to mean:

(a) In the case of acquisition of property—cost of resources applied in procurement, production, or construction of such property actually received or completed, and

(b) In the case of operating activities—cost of resources consumed in operation and maintenance, excluding depreciation or writeoffs of capital assets employed in operation or maintenance except for industrial- and commercial-type activities where improved management tools would result, as may be appropriate under approved Government policy.

It appears desirable to state the general understanding that application of the accrual basis of accounting should be modified in the Federal Government to exclude depreciation on capital property except for industrial- and commercial-type activities in those instances where improved management tools would result, as may be appropriate under approved Government policy. This is the generally accepted principle of application of the accrual basis of accounting in American State and local governments which utilize it. And we believe it is generally agreed that no useful purpose would be served by estimating or recording monthly or annual depreciation on military buildings and structures, ships, aircraft, combat vehicles, guns, etc.

It is important in financial control to budget and account for the cost of acquisition of all property (including both capital property and consumption-type materiel, or inventories, the cost of which is chargeable to operations when consumed).

Budgeting and accounting for the cost of acquisition of property presents special problems in the Department of Defense because of the immense amount of construction of facilities and procurement and production of materiel, all of which has a long lead time between planning (or programing) and completion or delivery. Control of cost of acquisition demands advance budgeting, authorization of, and accounting for costs of procurement, production, and construction, as well as for expenditures. Currently such budgeting, authorization, and accounting are provided in terms of "obligations" as well as expenditures. As noted above, in recommending institution of the use of the accrual and cost bases of accounting, the Commission's recommendations did not include in the formal budget and reports the obligation basis of advance cost authorizations. That such inclusion was intended appears evident from the report discussion, page 23.

Basis of congressional appropriations.—In the report discussion (p. 23) it is brought out that in recommending change in the basis of congressional appropriations to accrued expenditures, the Commission recommends use of additional contracting authority to cover construction, procurement, and production involving expenditures beyond the budget year. This would assure continuance of the present type of obligation control, although in a different form.

As indicated in the Commission's report, the Assistant Secretary of Defense (Comptroller) of the Department of Defense has previously expressed the opinion that the idea of an annual expenditure budget has merit, and that while there are certain administrative difficulties to be overcome, he does not believe them to be insurmountable. Such difficulties are concerned primarily with the difficulty of estimating the year of delivery of materiel or performance of services under long-term contracts. As a result, it would be impossible to precisely predict or estimate in which fiscal year the contract expenditures might fall. Therefore, it should be understood that unexpended balances of appropriations at the end of any fiscal year for the purpose of meeting contractual payments should be carried over to cover the expenditures to the extent they may subsequently materialize. It should also be understood that when the Congress authorizes obligations to be undertaken without simultaneously authorizing payments by appropriation action (to the extent it is estimated expenditures will not be payable during the same year the obligations are placed), the legal consequence is that the Congress (or any future Congress) is committed to making future appropriations to meet the required payments (including settlement of claims in the case of contracts terminated for the convenience of the Government).

Inasmuch as the proposed contract authority eventually results in payments by the Government, it may well be asked what purpose is served by deferring the making of appropriations in full to cover such payments. Does this provide more congressional control? In a strict theoretical sense, it does not increase

congressional control. However, the proposed division of contract and expenditure authority might well have the result of providing an incentive for improved expenditure budgeting and improved production and performance scheduling, with resultant economies. At least, by substitution of contract authority for advance appropriations, the substantial reduction of the present large annual carryover of appropriation authority, reserved to cover all future payments under contract obligations, should result in better understanding of the Federal budget. Certain other advantages cited in the Commission's report are not believed to exist. The proposed system would not enable the Congress, at the time it considers appropriations for expenditure, to reconsider past actions in granting contract authority any more than it can act today to rescind past appropriations. (The Congress can always rescind appropriation authority to pay existing obligations, if it desires to have contracts canceled or cut back, but it must provide for payment of losses for such contract settlements.) Moreover the proposed system would not operate to remove any incentive which may exist to obligate all available obligational authority before the end of each fiscal year.

That portion of the recommendation concerning making of congressional appropriations in terms of accrued expenditures would not require implementation in order to permit the use of the accrued expenditure and cost bases of budgeting and accounting (in addition to the obligation basis) for the purposes of executive and congressional control.

If this recommendation is accepted by the Congress for application on a governmentwide basis, there should be a period of at least 1 year, for the purpose of study and preparation, before placing the plan into effect.

Financial control through operating budgets.—Although the Commission report uses the terms "executive budget" and "operating budgets," it does not distinguish between them. It should be understood that the executive budget means the President's budget which is submitted to Congress in support of appropriation requests. The annual executive budget must be completed and submitted more than 6 months before the beginning of any fiscal year for consideration by the Appropriations Committees. It is rendered out-of-date by actions of the Congress in appropriating funds, as well as by the lapse of time and changing events.

For these reasons, it is necessary to revise the budget at the beginning of each fiscal year. It is also necessary to greatly amplify and subdivide the budget by individual activities within each agency for purposes of internal management. These revised and extended budgets may be termed "operating budgets." It is assumed, however, that the several bases of budgeting and accounting and the account classifications (except for differences in detail) would be the same for both budgets (the operating budget would be in greater detail).

Operating budgets should be used for purposes of apportionment of funds (i. e., obligation and expenditure authority) by the Director of the Bureau of the Budget, as well as in making fund allocations within the agencies, as recommended by the Commission. It is assumed the Commission did not intend to imply elimination of the apportionment process.

Fund allocations and allotments (see recommendation 13) should be considered simply as approvals and overall limitations of operating budgets at every level by the respective appropriate authorities within each agency.

If, as recommended by the Commission, the Congress were to separately provide contract authority for construction, procurement, and production, it is assumed that apportionments, allocations, and allotments would also be appropriately subdivided between such contract authority and expenditure authority.

Implementation of these recommendations in Department of Defense.—The Department of Defense subscribes to the use of the accrued expenditure and cost basis of budgeting and accounting, in addition to the obligation basis, subject to the explanations set forth above. It has been engaged in extensive development work leading to this end through implementation of title IV of the National Security Act, as amended. In particular, the utilization of working-capital funds results in consumer budgets being stated upon the basis of cost of resources consumed. Moreover, the installation of financial accounting for property is a necessary major step in this direction. The full utilization of the accrued expenditure basis of budgeting and reporting in the congressional budget (as distinguished from management's operating budgets and reports) will depend upon governmentwide development and upon congressional authority.

It is desired to correct what may be an erroneous implication in a quotation from the task force report (pp. 13 and 14), as follows:

"At the present time most budgets are prepared on the basis of estimated obligations to be incurred during the budget year. Obligations are orders placed,

contracts awarded, services received, and similar transactions during a given period requiring future payment of money. Obligations to be incurred during the year do not necessarily have any relation to costs to be incurred during the year.

"The task force states:

"(a) Such a budget presentation fails to take into account inventories and other working capital carried over and available at the beginning of the year which may be consumed in the programs of the budget year.

"(b) It excludes materials which may become available during the budget year on the basis of prior year obligations, or resources which are estimated to be carried over to the following year. Obviously, such inventories and materials should be considered in establishing the level of funds required to accomplish a program.

"(c) The accounting data required in formulating and controlling agency budgets is that which reflects the costs of goods and services to be consumed in carrying out budget programs, in other words, estimated costs incurred. The important thing in budgeting is the work or service to be accomplished and what that work or service will cost. Current Government practice, concerned primarily with incurring obligations, does not contribute to a determination of the costs of work or service to be paid for in the period under review. It fails to relate planned operations to past and projected costs."

Although, in fact, the criticism is addressed to the manner of presentation of the congressional budget, it might be interpreted by many as a criticism of the underlying method of determining requirements for additional obligation authority; namely, that existing resources of inventories, goods on order, and unobligated balances of prior years' appropriation, receive no consideration in determining such requirements for additional obligation authority. Such an interpretation would not be true in the case of the Department of Defense—quite the contrary is true.

Implementation

Department of Defense will continue with installation of the accrued expenditure and cost bases of budgeting and accounting, primarily with respect to implementation of title IV of the National Security Act, as amended, and subject to such governmentwide requirements as may be imposed by law or regulations of the Bureau of the Budget, Treasury Department, and General Accounting Office. It will also develop in connection with implementation of title IV the utilization of these bases of budgeting and accounting, as well as the obligation basis, in internal budgetary administration and other aspects of financial control, including reporting. If requested, the Department of Defense will also support that part of recommendation No. 7 which concerns the institution of a system of congressional appropriations in terms of estimated annual accrued expenditures with separation of contract authority to cover additional obligations for procurement, production, construction, etc., but only if provision is made for continuing the merits of the obligational basis.

RECOMMENDATION NO. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordinarily be enacted for a limited term in order to require periodic congressional review of their usefulness.

RECOMMENDATION NO. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

Based upon the explanation in the Commission's report, these two recommendations are not applicable to the Department of Defense.

RECOMMENDATION NO. 10

That there be established under the Director of the Bureau of the Budget a new staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

(a) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller

General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(b) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(c) To set reasonable but definite time schedules for performance and to watch progress.

(d) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(e) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

In addition, it is indicated elsewhere in the Commission's report (p. 49) that the preparation and publication of comprehensive central reports on a governmentwide basis should be a function of the Bureau of the Budget, and that this function would be exercised under the proposed Assistant Director for Accounting.

Department of Defense position

Concur in principle.

Comments

This recommendation is addressed primarily to the Director of the Bureau of the Budget. The Department of Defense sees merit in this recommendation from the standpoint that it would provide a better means of achieving improved, integrated budgeting and accounting for the Government as a whole, and this would have an impact upon the Department of Defense as well as other Government agencies. Logically, the functions of budgeting and accounting improvement go hand in hand, and both are properly placed within the executive branch of the Government.

It is not clear what impact this recommendation is intended to have on the functions of the Comptroller General and General Accounting Office. While cooperation would still be required between Bureau of the Budget and General Accounting Office, it would appear to be desirable that, in accordance with the recommendation, the leadership in the joint accounting improvement program should be passed from the Comptroller General to the Director of the Bureau of the Budget.

With respect to paragraph (d) above, it would be considered inappropriate and not potentially effective for the Assistant Director for Accounting to undertake to select agency personnel for accounting and auditing positions. Nevertheless, he might advise and assist in such actions to the extent requested, and he could provide assistance through setting standards for selection, training, and retention of capable personnel.

Implementation

None needed by Department of Defense.

RECOMMENDATION NO. 11

That as an aid to financial management the position of comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(a) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(b) To direct the recruitment, training, and development of qualified accounting personnel.

(c) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

(d) To interpret and advise upon significant aspects of the financial reports.

(e) To direct the preparation and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Department of Defense position

Concur subject to qualification that actual recruitment, training, and development of qualified personnel should be conducted in collaboration with the appropriate personnel officials.

Comments

The position of comptroller has been established in each of the military departments, as well as for the Department of Defense, pursuant to title IV of the National Security Act, as amended. The position of comptroller has been established, also, in the major subdivisions of each of the military departments. Further reference is made to comptrollers in the Department of Defense under recommendations Nos. 23 and 24.

The comptroller's functions, as recommended by the Commission, greatly underemphasize his budget responsibilities. While his accounting responsibilities are important, as emphasized by the Commission, his budget responsibilities are even greater. The Commission's report does not adequately set forth the concept that the comptroller (or the Assistant Secretary for Financial Management) should provide an independent review and analysis of budgets, as well as reports on performance, and that he should assist the Secretary of the Department as a coordinator in reconciling and balancing with each other, the budget claims for financial support by the several fields of operating interest (each of which has its advocate at top level) with the potential resources, including spending authority granted by the Congress. This does not mean that the comptroller (or Assistant Secretary for Financial Management) actually controls the operations, or serves as a general manager, or is the superior of his teammates who have responsibility for actual operations in their respective fields. The Department of Defense has been active in the development of this concept in the Federal Government.

Implementation

Department of Defense will continue to be active in the development of this concept in the Federal Government.

RECOMMENDATION NO. 12

That the selection of agency comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget.

Department of Defense position

Concur in principle.

Comments

The Department of Defense believes that any guidance and help in the selection and training of comptroller personnel should apply to a much broader area than the field of accounting, which is the recommended primary area of interest of the recommended Assistant Director for Accounting in the Bureau of the Budget. Comments concerning the extent of assistance to the agencies in personnel matters are stated in the comments with respect to recommendation No. 10.

Implementation

Department of Defense will utilize such assistance.

RECOMMENDATION NO. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Department of Defense position

Concur in principle.

Comments

The Department of Defense concurs in this recommendation, provided it is understood that some military department installations may have more than one operating unit located thereon. Guidance toward this objective has already been furnished the military departments by the Assistant Secretary of Defense (comptroller), and considerable progress has been made during the past 2 fiscal years (especially in gaining acceptance of the concept and objective by all concerned, both inside and outside the Department of Defense), although much remains to be accomplished.

One of the major requirements for further reductions of unnecessary "pockets of funds" is believed to be the further development of the method of financing cross servicing between departments upon a reimbursable basis, rather than by separate citation of the ordering agency's funds in connection with individual transactions affecting the cost of work ordered. Working capital funds have provided one solution of this difficulty, although this is not a primary objective of the use of such funds. Further development in this direction of financing services upon a reimbursable basis, under the allotment of the performing activity, awaits changes in Budget-Treasury Regulation No. 1 by the Director of the Bureau of the Budget and the Secretary of the Treasury, with the collaboration of the Comptroller General.

Implementation

The Department of Defense will continue to take actions within its power in simplification of the allotment system.

RECOMMENDATION NO. 14

See recommendation No. 7.

RECOMMENDATION NO. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Department of Defense position

No objection to review but nonconcur in implication.

Comments

The Department of Defense does not understand this recommendation, especially since the use of working capital funds facilitates and simplifies application of the accrual basis of accounting and cost accounting techniques. It might imply that implementation of the recommended accrual and cost accounting techniques for appropriated funds would make obsolete the further use of working capital funds in the military departments. The Department of Defense would not agree with such an implication, if that is intended.

The report includes a brief statement of advantages and disadvantages of revolving funds (pp. 39 and 40). The statement of advantages is correct (although it is incomplete, especially from the viewpoint of congressional control). Management, as well as accounting advantages are recognized. However, the statement of disadvantages (quoted from the Commission's task force report) is, in our opinion, incorrect.

The following statement is made by the task force with respect to the disadvantages:

"The principal disadvantages of these revolving funds are that they minimize congressional control of agency operations and that their widespread use can result in too many pockets of funds which becomes cumbersome from the standpoint of efficient administration."

The use of revolving funds actually increases congressional control. Congress has full control over the amount of capital in these funds (and, therefore, inventory levels and procurement of stocks represented thereby) through its power to appropriate for such increased capital requirements as may be justified by the agency, and to reduce excess capital requirements by rescission. Both types of action are normal procedure, although as a temporary measure until January 1, 1955, the Congress granted the authority to the Department of Defense, subject to approval of the President, to transfer unexpended balances of appropriations to working capital funds in order to initially finance new installations and additional categories of matériel. It is of interest that stock funds have returned to the Treasury, by action of the Congress in the past 2 years, or are returning during the current fiscal year, more than \$1 billion, a large part of which represented liquidation of excessive inventories under improved supply management facilitated by the use of working capital funds.

Moreover, the use of working capital funds permits the Congress to control by separate appropriation action to the using activities the cost of goods and services consumed by them. Without the use of working capital funds, it would only control through appropriation action for new procurement of matériel generally.

The use of working capital funds does not result in any more "pockets of funds" than the minimum which would be required for efficient administration without working capital funds, based upon the standards set forth in recommendation No. 13. In fact, under present regulations of the Director of the Bureau of the Budget, Secretary of the Treasury, and the Comptroller General, the use of working capital funds greatly reduces the number of "pockets of funds" in industrial- and commercial-type activities (in fact, this is stated in the Commission's report as an advantage of working capital funds). Although there are possible alternative ways to simplify fund control and accounting in such cases without the use of working capital funds, the Commission's task force has not covered them in its recommendations. However, such technical corrections would still not enable the Department of Defense to obtain the management advantages inherent in the use of working capital funds.

After issuance of its report on budget and accounting, the Commission released its report on Business Organization of the Department of Defense. This was a more comprehensive study of management and organization by a separate task force headed by Mr. Charles R. Hook, Sr. By endorsement of that report, the Commission accepted without qualification or reservation the use of working capital funds and recommended their extension wherever suitable. No disadvantages were found. It may be considered, therefore, that the later report serves to correct the budget and accounting report in this respect.

Implementation

The Department of Defense will cooperate in any review which may be undertaken.

RECOMMENDATION NO. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Department of Defense position

Concur.

Comments

The Department of Defense is required by law to meet this objective.

The military departments have more property than other Government agencies, and the conditions under which property must be accounted for are unusually difficult. While varying degrees of progress have been made in each of the three military departments, much remains to be accomplished—especially in integrating property accounting with fund accounting and in extension overseas of financial accounting for property. The use of working capital funds, wherever appropriate, facilitates integration of financial accounting for property and fund accounting.

Implementation

The Department of Defense will continue its efforts to install adequate financial accounting for property in connection with implementation of title IV of the National Security Act, as amended.

RECOMMENDATION NO. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Department of Defense position

Concur.

Comments

This recommendation requires congressional authority to implement. It would greatly facilitate and simplify integrated accounting for obligations, accrued expenditures, and disbursements under annual appropriations. The recommendation is not clearly stated and may be misunderstood. However, the discussion in the report seems to be clear enough as to the objective and general method of accomplishment. Nevertheless, it might have been desirable to clearly indicate, as one of the features of the proposal, that provision should be made for "lapsing" the unobligated balances of annual appropriations and also such portion of unliquidated obligations (subject to necessary adjustment) carried forward at the

beginning of each fiscal year as may be determined subsequently to be in excess of the actual amounts to be payable.

Implementation

The Department of Defense will support the necessary legislation and make the necessary study of its detailed application.

RECOMMENDATION NO. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as claims to the General Accounting Office, but should be settled within the agencies.

Department of Defense position

Concur.

Comments

The Department of Defense hopes that authority will be granted to implement this recommendation.

Implementation

Department of Defense will support the necessary legislation and any appropriate implementing action of the General Accounting Office.

RECOMMENDATION NO. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

Department of Defense position

Concur in principle but do not believe the recommendation goes far enough.

Comments

This recommendation has been partially implemented through adoption of Public Law 365, 84th Congress, approved August 11, 1955. It is believed, however, that the permissive authority for clearance should have been carried further. The Department of Defense sees no reason to continue with a procedure which requires relief of disbursing officers when they have not been found guilty of fraud or gross negligence. Instead, each department or agency head should have the duty of making positive findings of fraud or gross negligence and taking such steps as may be normal to institute criminal action as well as to recover losses. The Comptroller General would always have the privilege of commencing appropriate action if he disagreed with agency findings or found the agency delinquent in taking necessary action.

Implementation

The Department of Defense will support the necessary legislation, preferably for authorizing the procedure outlined in the comments above.

RECOMMENDATION NO. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate (a) duplicate accounts within the Treasury Department, and (b) duplicate accounting as between the Treasury Department and the various departments and agencies.

Department of Defense position

Concur.

Comments

Simplification of procedures, through elimination of duplicate records, without loss of control is believed to be feasible.

Implementation

None required in Department of Defense. However, if requested, the Department of Defense will cooperate in the study.

RECOMMENDATION NO. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they may meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Department of Defense position

The Department of Defense concurs on the basis of the present departmental assignment of functions, but see comment on recommendation No. 22.

RECOMMENDATION NO. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing comprehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

Department of Defense position

Concur but do not believe the recommendation should exclude fiscal reports.

Comments

While the Department of Defense concurs, it is believed that the recommendation should be more specific and comprehensive—that is, the function of all central reporting (including fiscal reporting) for the Federal Government, as a whole, should be transferred from the Department of the Treasury to the Bureau of the Budget. Such action would be required in order to implement recommendations No. 2 and No. 10. Such a step would eliminate duplicate reporting channels and central agency reporting responsibilities; it would thus concentrate overall central reporting responsibilities for the Federal Government.

Implementation

If requested, the Department of Defense will support necessary legislation. It will also undertake to implement any action that may be undertaken for the Government as a whole under the direction of the Bureau of the Budget.

RECOMMENDATION NO. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Comments

The Department of Defense concurs in the need for selecting individuals for comptrollership positions who have broad management and accounting experience and competence. The problem as to whether these positions should be staffed exclusively with civilian personnel is being studied in connection with recommendations 13 and 14 of the Hoover Commission Report on Business Organization of the Department of Defense and will be commented upon in connection with that report.

RECOMMENDATION NO. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a Chief of Staff or equivalent be discontinued.

Department of Defense position

The substance of this recommendation is included in recommendation No. 19 of the Report on Business Organization of the Department of Defense, and comments thereon will be included in the statement to be submitted concerning that report.

RECOMMENDATION NO. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

Department of Defense position

No objection. However, see comment below.

Comments

The Department of Defense has no objection to such a study, if it is desired. However, such a study within the Department of Defense has been made, and it discloses the need and direction for further development and improvement of internal auditing. Vigorous steps have been taken, in different degree in each military department, to institute internal audit programs—a relatively new activity. Any special external study would not be productive it is believed.

Implementation

Will cooperate in such a study if one is undertaken.

COMMENTS ON FEDERAL BUDGETING AND ACCOUNTING

By Lloyd Morey, Ex-President, University of Illinois, Champaign-Urbana, Ill.

The budgeting and accounting systems of the Federal Government have been the subject of numerous reviews and reports in the past few years by various commissions, committees, and task forces. This is not the first time such external studies have been made. There was an extensive study made on behalf of the Senate Select Committee on Government Organizations in 1937. In 1939 a brief study was made by a subcommittee of the Committee on Governmental Accounting of the American Institute of Accountants, of which the writer was chairman.¹

Many of the deficiencies emphasized in the earlier reports have been recognized and steps initiated to correct them. Others have been reemphasized in recent reports, and quite a few of the earlier recommendations have been restated.

The recent reports, however, vary from earlier studies on emphasizing the need for following "business" methods in the Government. This is interpreted as meaning that procedures should be those followed by privately-owned business concerns operated for profit. Admittedly many features of business and accounting are similar in the two areas, and are good in both places. But the conditions and objectives in the two are in many respects different, and call for procedures which recognize these differences. What is needed in the Government is that it be run in a businesslike manner, but not necessarily as private business is run. Accounting can serve management only if it is designed to serve the objectives and requirements of the particular enterprise being managed and not some overall management theory.

As further illustration of the trend of current recommendations, is what may be described as the deemphasis, amounting almost to disregard, for "obligation (or 'encumbrance') control." This finds expression through (a) emphasis on the weaknesses of the current system of "obligation" procedures, and (b) emphasis on the need for "cost" accounting. In spite of a certain degree of merit on these comments, they tend to overlook the facts that (1) before any obligations can be incurred or expenditures made, funds must be appropriated by the Congress; and (2) the first requisite in the management of such appropriated funds is to keep obligations within the limits so set. It is folly to assume that any manager can operate without attention to fund resources in gaging his spending. It would be both unthinkable and unrealistic to fail to give a manager the tools of accounting control over the limitations under which he must work. These principles were recognized by the Hoover Commission Task Force in its detailed discussion of the Department of Defense (p. 82, task force report on budget and accounting): "The control and accountability for appropriated funds is of course essential in order that the Department may comply with the constitutional requirement that no funds be expended except under congressional authority." Yet the basic recommendations do not give emphasis to this point. To do this it is necessary that there be at some point, full and complete records of (a) the authorization for use of funds by spending authorities, and (b) details of obligations entered into and the extent to which they are liquidated. Since it is obviously impracticable in so vast an operation as the Federal Government to maintain such details at central points, they should be maintained at each level of spending authority and reported periodically to central points for consolidated financial reporting.

Admittedly the budgetary control system in the Federal Government has been carried to extreme. The allotment system is unnecessarily cumbersome. Ac-

¹ See *Journal of Accountancy*, March 1940.

counting for obligations has overshadowed good expenditure and cost accounting. But that does not eliminate the necessity for a proper system of "funding" or "obligation" accounting. Such a system must precede cost accounting, and the latter should stem from rather than supersede it. The two can and should be integrated into a single comprehensive system. This procedure is endorsed by the National Committee on Governmental Accounting, is followed by all current authorities on the subject, and is current in the operations of States and large cities generally.

The reports of the various task forces and committees fail measurably to recognize these basic premises. They tend toward an almost "slavish" acceptance of the methods of private business, and to the assumption that because certain procedures are adequate there, they are equally applicable and satisfactory for all Government operations. Evidence of this lack of understanding of the peculiar needs of Government with respect to budgetary control is found in an article by John W. McEachren on Accounting Reform in Washington:² "In industry, no formal accounting entries would be made prior to the establishment of the liability. But in Government, *partly for statutory reasons and partly from custom*, there would be an involved series of accounting actions before the transaction reached the point where commercial accounting normally would begin." (Italics supplied.) This is a signal failure to recognize the true reasons for funding or budgetary accounting in Government and the differences between conditions in Government involving limitations on funds and those in business where with certain exceptions sales or income volume is practically the sole limitation on outgo and is virtually automatic in its effect on increase or decrease in spending.

There is nothing incompatible between budgetary accounting (or "funding" as it is so frequently referred to in Federal accounting) and good cost accounting. The latter follows logically out of the application of (1) an accrual system of expenditure accounting, and (2) the entry of services and materials as costs when supplied and used, rather than when acquired or paid for. Accounting for costs incurred or accrued expenditures, as well as obligations, can be established as an integral part of accounting for the respective appropriations or funds. In the past, the Federal system, being primarily based on accounting only for obligations and disbursements, and absence of inventory accounts, treated all materials acquired as expense of the program at time of acquisition instead of at time of use. These deficiencies have properly been targets of criticism. They can be corrected by (1) an inventory system in which materials acquired are charged temporarily to stock accounts, and are charged to expense or cost accounts when withdrawn for use; and (2) an accrual system, entering as expense a cost when incurred.

It has been demonstrated, and accepted by most of the committees, that working capital funds, as authorized by the National Security Act, are the best medium for handling inventories of consumable materials, as well as for operations of industrial- and commercial-type activities carried on by the Government itself. No appropriations would be needed for procurements of stock funds, unless it became necessary to increase the continuing inventories. Appropriations for operations or for capital purposes would be based on materials used, in accordance with Hoover Commission recommendation: "11. That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures—namely, charges for the cost of goods and services estimated to be received."

The effective application of these procedures depends fundamentally on the development of a classification of accounts for budgetary, accounting and reporting purposes, based on the programs and activities of the agency concerned, as the Commission also recommends. When this is done, appropriations and budgetary control accounts at all stages harmonize with the needs for activity and program costs. The latter stem from the expenditure accounting under the budgetary account system, by applying the accrual and inventory procedures already outlined. No new or separate system of cost accounting is necessary or desirable. "Costs" and "accrued expenditures" are generally synonymous if inventories are separately accounted for.

With respect to budget preparation, the budget should be a plan of what those responsible intend to do to carry out their responsibilities. It should constitute a program of work expressed in financial terms. It should include an estimate of complete costs, in terms of services.

² Journal of Accountancy, September 1955, p. 30.

For operations and maintenance budgets the basic requirement is a functional classification of accounts in terms of organizational responsibilities, activities, and programs, which will be common for purposes of programing, budgeting, accounting, and financial reporting, and which will be as consistent as possible year by year. In this area, when consumable materials are handled through working-capital funds, appropriations can be based on costs incurred for the fiscal period. A high degree of identity here exists between obligations incurred and accrued expenditures.

In capital-type expenditures, long lead-time programs requiring several fiscal periods for completion require special attention. In these instances, budgets should include: (1) complete estimates of entire cost for each new project, broken down into (a) obligations to be entered into and (b) estimated costs to be incurred, for each fiscal year; and (2) current status of each project previously authorized. Authorization would be sought for making long-time contracts, but fiscal appropriations would be based on estimated costs to be incurred. An integrated accounting control would cover:

- (1) Authorizations for long-time contracts.
- (2) Appropriations for fiscal period.
- (3) Apportionments, allocations, and allotments as required.
- (4) Obligations incurred and liquidated.
- (5) Expenditures (costs incurred).

Financial reports would reflect operations under all these headings as a unified presentation.

Financial accounting for property should cover capital property as well as inventories of materiel, including but not limited to property financed by working-capital funds.

Comprehensive budgetary control in government should not be looked on as a device which holds down initiative or good management. Instead, when properly placed and used, it is an essential aid to best management, since it gives responsible officers the information necessary for them to properly carry out their responsibilities. Instead of being discarded or deemphasized, it should be refined, simplified to the extent feasible, and kept in the high place of importance it deserves and should hold.

In looking at financial reporting for agencies in the Federal Government, it is quickly apparent that there is still long-delayed development. For example, the Treasury reports on appropriated funds exhibit data on appropriations, receipts, expenditures, i. e., cash disbursements), and unexpended balances. On the other hand, budget reports on these funds exhibit data on appropriations, reimbursements, obligations, and unobligated balances—a type of statement showing changes in funds available for obligation. But nowhere is there a fund balance sheet, by each appropriated fund, which ties together and exhibits the financial condition of the fund in terms of all resources (of which there are others than unexpended balances) and unliquidated obligations, as well as balances available.

And the most unusual fact is that the largest agencies are not even prepared through their accounting systems to provide a fund balance sheet and prove the accuracy of their unrelated reports showing cash and obligation transactions and balances available for expenditure and obligation.

This points up the fact that the Federal Government needs very much to adopt a modern streamlined integrated system of accounting for its appropriated funds, and administrative subdivisions thereof, within the framework of which it also accounts for accrued expenditures (or costs) as well as obligations and cash disbursements. And this means, in addition, that property accounts should be kept in financial terms and integrated with the fund accounts in terms of equating property acquisitions with accrued expenditures from the related appropriations—but the two types of accounts (funds and property) should not be commingled. Each should be a separately balanced group of accounts.

This last comment does not imply the recognition of the ancient and long-outmoded system of two cycles of overlapping accounts—proprietary and budgetary—in achieving these objectives. It is perfectly feasible to integrate all the accounts needed for setting forth the operation and condition of any fund, in a single series of entries covering all transactions and accounts. The result will be a fund balance sheet which recognizes all resources, whether proprietary or budgetary, and shows the status of the fund in terms of availability for further obligation and expenditure.

The separation of current and property investment accounts within a fund is important; it is essential to separate those resources which the "expendable"

and therefore available for use, and those which represent investment in property and therefore already expended.

The following principles recommended by the National Committee on Governmental Accounting, although drawn primarily for municipalities, are equally applicable here:

"6. A complete balancing group of accounts should be established for each fund. This group should include all of the accounts necessary to set forth the financial condition and financial operations of the fund and to reflect compliance with legal provisions.

"7. A clear segregation should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of working capital, utility or other enterprise, or trust funds, fixed assets should not be carried in the same fund with the current assets but should be set up in a self-balancing group of accounts * * *" (Municipal Accounts Statements, 1951, p. 2).

FEDERAL ACCOUNTING PRINCIPLES

1. In order to carry out a program, goods and services are necessary.
2. Authority to secure goods and services must be provided by—
 - (1) Appropriations by the Congress;
 - (2) Apportionments by the Budget Bureau;
 - (3) Allotments by the department.
3. To secure goods and services it is necessary to enter into obligations, the total of which may not exceed allotments from apportionments made out of appropriations.
4. To make certain that obligations entered into do not exceed total authorizations and accounting control of obligations is necessary.
5. Disposition of goods and services should be in terms of programs, and in terms of amounts used. This requires that—
 - (a) goods not required for immediate use (or used in manufacturing by the Government for later charge to the program involved) shall be charged to an inventory account or fund;
 - (b) when materials are withdrawn from stock for use in a program they be credited to the inventory account and charged to the allotment for program involved;
 - (c) goods used and services rendered be charged to the program in the period thus applied, irrespective as to when paid for.
6. There should be one integrated system of accounts for all purposes; budgets, appropriations, apportionments, allotments, obligations, and program costs.
7. Since program costs are provided by appropriations, apportionments, and allotments, the former should be accounted for subsidiary to the latter accounts and not as a separate group of accounts.
8. Since program costs are provided in part by materials previously acquired and held in inventories, the financing of such inventories and the necessary transfers therefrom can be accomplished more satisfactorily by the use of working capital funds for all consumable material where stocking is done for later use. The same is true where industrial activities are carried on through which goods and services are furnished to programs financed by appropriations.

BUDGETING AND ACCOUNTING

WEDNESDAY, MARCH 28, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON REORGANIZATION
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:05 a. m. in room 357, Senate Office Building, Washington, D. C., Senator John F. Kennedy, subcommittee chairman, presiding.

Present: Senator Norris Cotton, Republican, New Hampshire.

Also present: Miles Scull, Jr., professional staff member; Glenn K. Shriver, professional staff member; Mrs. Kathryn M. Keeney, clerical assistant.

Senator KENNEDY. The subcommittee will come to order. We will resume this morning our consideration of S. 3199, a bill to improve governmental budgeting and accounting methods and procedures, and for other purposes. At the completion of testimony on S. 3199, the subcommittee will take up S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

Mr. Karney A. Brasfield, Assistant to the Comptroller General of the United States will testify first. You are accompanied by Mr. Robert F. Keller?

Mr. BRASFIELD. Yes, sir.

Senator KENNEDY. Mr. Keller is also an Assistant to the Comptroller General of the United States. Mr. Brasfield, do you have a statement?

Mr. BRASFIELD. Yes, sir, I do.

STATEMENT OF KARNEY A. BRASFIELD, ASSISTANT TO THE COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GEN- ERAL OF THE UNITED STATES

Mr. BRASFIELD. In view of the testimony of Mr. W. J. McNeil, Assistant Secretary of Defense, on S. 3199, we believe some further discussion of the accounting systems function of the General Accounting Office, as set forth in section 112 of Public Law 784, 81st Congress, would be helpful. This discussion has particular reference to section 120 (a) of S. 3199 and section 2 (c) of that bill. Mr. Heffelfinger, Fiscal Assistant Secretary of the Treasury, also made some reference to the accounting systems function of the Office in commenting upon section 120 (a) of S. 3199. This matter was covered in our report to the subcommittee on the bill but was omitted from our statement and testimony in the interest of brevity.

Recommendation No. 10 of the first Hoover Commission proposed that the accounting systems function of the Comptroller General would be transferred to the executive branch, although there was a substantial lack of unanimity on this recommendation among the members of the Commission.

The matter was carefully explored by this committee, then the Senate Committee on Expenditures in the Executive Departments, in the hearings which resulted in the Budget and Accounting Procedures Act of 1950. The proposal was rejected by the committee and the Congress. The paragraph in the committee report dealing with this matter was as follows (S. Rept. 2031, 81st Cong.) :

Under a policy established and steadfastly adhered to by the Congress, the Comptroller General of the United States, as an agent of the Congress, has been vested with authority to prescribe accounting requirements for each of the executive agencies as an essential to legislative control of appropriations and expenditures in the executive branch. The committee feels that this long-established policy of Congress is an essential legislative control over public financial transactions, and must be held inviolate. It has, therefore, rejected this proposal of the Hoover Commission. The bill does fill in certain gaps in the Comptroller General's authority, however, and he will be enabled to exercise all his authority on the same high level of principles, standards, and related requirements, consistent with the assumption by the agencies of their responsibility to develop their own detailed systems and procedures.

Under the Budget and Accounting Procedures Act of 1950 (Public Law 784, 81st Cong.) the Comptroller General, after consulting with the Secretary of the Treasury and Director of the Bureau of the Budget, concerning their accounting, financial reporting and budgetary needs and considering the needs of other executive agencies, is responsible for prescribing the principles, standards and related requirements for accounting to be observed by each executive agency.

The statute further provides that in carrying out this responsibility the Comptroller General shall prescribe requirements designed to permit the executive agencies to carry out their responsibilities under section 113 of the statute which places upon the head of each executive agency the responsibility for establishing and maintaining adequate systems of accounting and internal control. Full disclosure of the results of financial operations of each executive agency and the Government as a whole, as well as the financial information and control necessary to enable the Congress and the President to discharge their respective responsibilities, is also contemplated by the statute.

In addition to these responsibilities, the same statute provides that the General Accounting Office shall cooperate with the executive agencies in the development of their accounting systems and shall approve them when deemed by the Comptroller General to be adequate and in conformity with the principles, standards and related requirements prescribed by him. He also has the duty to review such systems and report the results of such reviews to the Secretary of the Treasury, the Director of the Bureau of the Budget and the Congress.

This approach to the problem has been followed since the inception of the joint accounting program in 1948. After working with the agencies on a day-to-day basis for a number of years, the Comptroller General issued a set of accounting principles in November 1952. These principles were based upon experience in dealing first-hand with the problems of the agencies in cooperative systems development work.

The Secretary of the Treasury and the Director of the Bureau of the Budget participated in the development of the statement of principles in keeping with the cooperative working relationship envisioned by the Budget and Accounting Procedures Act of 1950.

The second Hoover Commission which had the opportunity to review the progress made since 1948, commented favorably upon the manner in which the accounting systems function of the Comptroller General had been carried out through the joint accounting program in making its recommendation for a staff office of accounting in the Bureau of the Budget. On page 32 of the Budget and Accounting Report, the Commission made the following statement, and I quote:

The above recommendation does not intend in any way to criticize the activities of the Comptroller General in connection with the joint accounting improvement program.

The accomplishments of this program, which are largely attributable to the General Accounting Office, have been noteworthy and cooperation between the General Accounting Office and the executive agencies must, of course, be continued.

You will recall that Mr. Stewart, when he was before the subcommittee last week, reiterated that statement.

In dealing more specifically with the Comptroller General's responsibility for prescribing principles and standards, and standards is one of the points involved here, the Commission had this to say on page 58, and I quote:

The Comptroller General's responsibility for prescribing the principles, standards, and related requirements for accounting to be observed by each executive agency has resulted in his issuing a statement of accounting principles and standards for guidance of the agencies.

These principles and standards which were developed in consultation with the executive branch have been set broadly, are sound, and permit flexibility in their application. They have been helpful and in our opinion are in complete harmony with the proper objectives of accounting improvement in the executive branch.

I won't read the rest of the quote as the issue here involved is principles and standards.

The General Accounting Office does not understand that the recommendations of the Hoover Commission for the establishment of a staff office of accounting in the Bureau of the Budget was intended in any way to impinge upon or lessen the effectiveness of the prescribing function carried out by the Comptroller General as an agent of the Congress, or the cooperative systems work of the General Accounting Office with the executive agencies.

This conclusion is in keeping with our discussion with the chairman of the task force which originated the recommendation. As previously testified, we believe it is desirable to strengthen the efforts of the Bureau of the Budget to contribute to accounting improvements throughout the executive branch and, although we question the desirability of providing for a specific office within the Bureau of the Budget by statute, we believe that the establishment of such an office administratively by the Director will be helpful in tying budgeting and accounting together and is in no way incompatible with the continued exercise of its responsibilities by the General Accounting Office as provided in the Budget and Accounting Procedures Act of 1950.

We firmly believe that the authority to prescribe the principles, standards and related requirements for accounting to be observed by the executive agencies should remain with the Comptroller General, and that the General Accounting Office should continue its cooperative systems work with the executive agencies.

Senator KENNEDY. Is there any other comment you care to make?

Mr. BRASFIELD. No, I think that covers it, Mr. Chairman.

Senator KENNEDY. Fine, and thank you very much. We will now receive testimony on S. 3362. The first witness will be Mr. William F. Finan, Assistant Director for Management and Organization of the Bureau of the Budget. Before Mr. Finan takes the stand, I desire to insert in the record a committee print of S. 3362 which incorporates certain amendments agreed to by the agencies affected. Mr. Finan, will you proceed?

[Committee print, March 27, 1956]

[S. 3362, 84th Cong., 2d sess.]

A BILL To simplify accounting, facilitate the payment of obligations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, except as otherwise provided by law, (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the ~~activity~~ agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this Act: Provided further, That the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require.*

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement, on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account *as of the close of the fiscal year* shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation ~~as of the close of the fiscal year~~ as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals ~~required made pursuant to subsection~~ subsections (a) and (b) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2)

of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically but at least once each fiscal year, by each ~~activity responsible for the liquidation of the obligations chargeable to such accounts~~ *agency concerned*. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess ~~shall~~ *may* be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the ~~activity~~ *agency or subdivision thereof* currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled ~~or will not be undertaken or continued~~; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed.

(a) The proviso under the heading "Payment of certified claims" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of certified claims" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) *Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.*

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia or to the appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

SEC. 9. *The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which each appropriation or appropriations shall remain available for expenditure is hereby authorized.*

**STATEMENT OF WILLIAM F. FINAN, ASSISTANT DIRECTOR FOR
MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET;
ACCOMPANIED BY WILLIAM J. ARMSTRONG, CHIEF, ACCOUNTING
GROUP, BUREAU OF THE BUDGET**

Mr. FINAN. Mr. Chairman, I appreciate this opportunity to elaborate upon our testimony of last week in support of S. 3362. The particular point that I would like to offer this morning involves the testimony in which the Department of Defense expressed concern about the possible effect of this bill, or, perhaps, I should be more precise and say one particular feature of the bill, upon the operations of the Department of Defense.

The provision of the bill in question involved the writeoff within 90 days after the close of a fiscal year of the unobligated balance of an appropriation, with further provision that if subsequently in the liquidation of valid claims, the residual balance representing unliquidated obligations proved inadequate to cover the claims in question, the Department should, in effect, dip into its current counterpart appropriations to make up the difference.

The Defense Department was concerned that under escalator clauses of contracts or possibly for other reasons they would be forced into a situation in which they would have to come to Congress for supplemental appropriations in a current year by reason of writeoffs of unobligated balances of prior year appropriations.

Since the Bureau and the representatives of Treasury, General Accounting Office, and Defense, testified last week, we have had further consultations about this matter and are offering an additional amendment to S. 3362 which we all believe will eliminate the possibility of developments of the kind that the Defense Department expressed so much concern about.

I have supplied the reporter with a copy of our proposed amendment and, as a matter of fact, a day or two ago I also provided drafts to the staff of the subcommittee.

(The amendment to S. 3362 proposed by Mr. William F. Finan, follows: On page 2, line 6, change the period to a colon and add the following:

Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this act: *Provided further*, That the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require.

On page 4, line 13, change the word "shall" to "may.")

That amendment would be in the form of a proviso which would—to convert the technical language of the amendment to laymen's language—authorize the head of a department, in the event the remaining balance in an old appropriation account proved insufficient to liquidate valid obligations, restore a portion of the balance that had been written off previously in an amount sufficient to cover the difference and enable him to pay the valid claims.

It would also contain a further proviso that would require the department head who made such an adjustment to report to the Director of the Bureau of the Budget at such time and with such explanatory material and so on as the Budget Director might require.

The purpose of that reporting provision is not to put the Budget Director in a position of reviewing and either approving or disapproving the action of a department head. We believe the authority and responsibility should clearly remain with the department head, but we think that the Budget Bureau should be aware of transactions of this kind should they develop. There is a fair possibility that none would ever develop under this provision, but should it occur we could investigate it and determine what the causes were and see if it were possible to initiate corrective action. We think it is most unlikely as a practical matter that it will ever be necessary for a department head to use the authority that would be given him under this proviso which really amounts to authority to go back and correct an error he made in underestimating his outstanding obligations during this 90-day period after the close of a fiscal year.

Senator KENNEDY. The language on page 2, line 11, "effect adjustments," that would only cover the purchase of goods authorized by the Congress and where there might be an escalator clause. That type of case would be the only type of adjustments authorized by the Congress; is that right?

Mr. FINAN. That is right, sir, and it would only enable him to liquidate obligations incurred during the fiscal year in question and which were otherwise completely valid and proper claims against the Government.

The present situation, Mr. Chairman, as you know, is that these unobligated balances are not now written off. They are carried over at the end of 2 years and show up in the Certified Claims Account in the Treasury Department.

One of the advantages of this bill would enable us to reduce, at least to some extent, these apparent carryovers of unobligated appropriations which would introduce a greater element of precision and integrity into the books of the executive branch.

The authority that is given here is really one of enabling a department head to correct an error which was made—in other words, there may have been an order let, or some other valid obligating action taken, which, for one reason or other, didn't get recorded in the books and

it shows up later and it is a perfectly proper claim against the Government and must be paid.

These escalator clauses can also enter into the picture. The others are straight out and what might be called bookkeeping errors that might enter into the picture. It should be borne in mind that this single, old account that would be provided for here would be one into which would be transferred the balances of all prior years that still contained unliquidated obligations, so that we think there is a very reasonable presumption that for every claim that is in excess of the original obligation, we will have one or more claims that will come in on the low side and balance it out.

So we frankly think that this proviso, which we are perfectly satisfied with and are willing to recommend, be included in the bill, is one that is most unlikely to be used.

On the other hand, if it is used, we want the Budget Director to know about it because we think it may expose the kind of situation that wasn't anticipated in one form or another that should involve some corrective action. The corrective action, of course, couldn't be in the form of a refusal to pay a claim because by that time, shall we say, the water is long since over the dam. You would have to deal with similar situations that might develop in the future.

Senator KENNEDY. Are you finished with your testimony?

Mr. FINAN. I am finished, sir.

Senator COTTON. Could this provision be used to restore previously returned balances from several years back?

Mr. FINAN. I am not sure I understand your question.

Senator COTTON. I am just wondering how much actual protection this word "adjustments" has. I mean, could this amendment be used if a department head desired to do so, to go back and restore the previously returned balance of an appropriation for more than 1, 2, or 3, or for several previous years, and get it back into his control?

Mr. FINAN. Not in the sense that it would give him authority, Senator, to use it for new purposes during the current fiscal year when this issue came up.

An appropriation, as you know, really gives the Department head authority to do two things—one, is to obligate the money, to hire people, let contracts, issue purchase orders, and so forth. The other is authority to spend the money which is to pay his people after he has hired them and pay his contractors and pay his bills and so on.

Now, the authority to obligate, that is, to hire people or to initiate contracts and so on, under an annual appropriation expires on June 30 of each year, and that provision is in no way affected by this bill.

Under the present situation, however, the entire balance of his appropriation which is both unobligated and unspent is carried over on his books for 2 years during which time he can continue to pay claims, but he cannot further obligate any of his unobligated balances. In other words, he can't buy anything with this that was not ordered on or before June 30.

Senator COTTON. This last statement you just made is under this current bill?

Mr. FINAN. I am talking about the current situation.

Senator COTTON. Now?

Mr. FINAN. Yes, sir, now. You can point it up with a simple illustration. Let's say you had an appropriation for \$1 million a year.

For one reason or another, you might not find it necessary to use or obligate over \$900,000 of it. Under the present situation you would still carry over on your books and 2 years later transfer to the books of the Treasury so much of the \$1 million as was still unspent and the portion of it, in this case \$100,000, which was unobligated.

Under this bill, 90 days after the close of the fiscal year you would write off the \$100,000 of unobligated appropriation and then you would carry on your books so much of the remainder as has yet not been spent but which was obligated. In other words, bills that you hadn't received yet.

Senator COTTON. I truly understand all that, but the point is that the amendment, if I can see its purpose, is that a department head, after that 90 days expired and after the unobligated had been canceled or written off, however you phrased it, if he finds he made an error and obligated a little more than he realized, can recapture it. Is that right, under this amendment?

Mr. FINAN. Only to the extent that if he gets a claim which exceeds the total balance remaining in this appropriation and that claim was a valid claim and at the time he let the contract or issued the purchase order it was in the fiscal year in question and he had at that time available funds to do it. Only then could he make an adjustment in his books that would recapture enough of what he had written off to enable him to have a sufficient balance to pay the claim.

Senator COTTON. That is exactly what I thought I said. In other words, if he has committed \$750,000 of \$1 million and apparently the other \$250,000 was not committed, was unspent, automatically, under this bill, it would go off his books.

Mr. FINAN. That is correct, sir.

Senator COTTON. But, if he discovered later that actually the purpose for which he committed the \$750,000 climbed to \$800,000 he can get that extra \$50,000, is that correct?

Mr. FINAN. Only in the event that other transfers into this account had also been exhausted and he needed the \$50,000 in the account to bring it up to an amount that would enable him to liquidate his claims, because this account will contain transfers from a number of prior years.

Senator COTTON. Well, what control, if any, would Congress have over these restorations? I mean by "restorations" what is covered by this proposal.

Mr. FINAN. In terms of direct control, that is whether the department head would have to come to either a congressional committee or anywhere else in the Congress in order to make this accounting adjustment, the Congress wouldn't get involved in it.

Senator COTTON. What knowledge, if any, would Congress have of these transactions?

Mr. FINAN. The normal audits of the General Accounting Office which, under the provisions of the bill, call for a review of their accounts annually and, of course, the individual transactions come under the normal postaudit operations of the General Accounting Office.

Senator COTTON. Would the Bureau of the Budget have any control over these so-called restorations?

Mr. FINAN. Not control, except that the transactions would be reported to us and it would then put us in the position of investigating

and determining what happened and determining whether any corrective action was taken to prevent future occurrences.

Senator COTTON. By "corrective action," do you mean by legislation?

Mr. FINAN. It could take several forms, Senator Cotton. It could indicate that an agency had a very poor set of books, that within 90 days after the close of a fiscal year they really didn't know what their outstanding obligations were, which would suggest that we ought to move in through the joint accounting program and help the agency get the books in order.

Senator COTTON. Would the Bureau of the Budget report to Congress on actions taken under this proviso, this amendment?

Mr. FINAN. This amendment as written would not require the Bureau of the Budget to make reports under this provision.

Senator COTTON. You say you believe, as a practical matter, any claims that came in that required more money than was anticipated, when the unspent portion was written off the books, would be counter-balanced, undoubtedly, by instances in which not as much money was required to meet claims as was originally anticipated?

Mr. FINAN. That is correct, sir. The trend tends to be that way in most appropriations.

Senator COTTON. I understand that, but how do we know what safeguard we have to know that if that situation is true, that the head of the department will balance off those savings against the funds that he had to recapture?

Mr. FINAN. He would be required to do that under the provisions of this bill.

Senator COTTON. But who checks on him—who polices him?

Mr. FINAN. The General Accounting Office, sir. These accounts are reviewed once a year.

Senator COTTON. And supposing the General Accounting Office finds that he hasn't balanced those. What do they do about it?

Mr. FINAN. They would report that to the Congress, sir.

Senator COTTON. Report it to Congress?

Mr. FINAN. Yes, sir, and as I would interpret the way this bill is written, Senator, action of that kind would be a violation of the provisions of this bill. In other words, a violation of the law.

Senator COTTON. I am not suggesting a great many department heads or any department head might consciously do that, but I have sat on appropriation committees and we all know that departments many times are seeking to keep control of their funds.

I won't take up any more time, Mr. Chairman. It just seems I am a little bit surprised to find that everybody is unanimous about the adoption of this amendment. By curbstone judgment and my first consideration of it when I read it, it just seemed to me that it opened up tremendous loopholes in this bill and nullified much of the effect of the bill. I have to be convinced that it doesn't.

Mr. FINAN. Our only criticism of this amendment, Senator, is we doubt the necessity of it, but we think it is perfectly harmless. The current situation is one in which all of these balances, including the unobligated portions, are carried forward, so the initial effect of this bill is a substantial tightening up of the situation. There is no way, under either the current situation or this bill, which would enable a de-

partment head to obligate under any 1 appropriation in 1 fiscal year more than was initially appropriated by the Congress. That ironclad limit exists both under the situation that exists today and it would also exist under the situation under this bill.

Senator COTTON. But it is your studied judgment, from your knowledge and experience in these matters and which certainly exceeds mine and probably most of the Members of Congress, that these accounts are likely to balance, and that this provision, it seems to me, is unnecessary.

Why do you need it if in almost all instances it is likely that those accounts where less money is required will counterbalance the ones where they have found a mistake and more money is required? Why, then, you don't need this provision, and if you need this provision, why it just presupposes that that situation is not good and that it exists.

Mr. FINAN. We are agreeing with this provision, Senator Cotton, strictly to remove the objections of the Department of Defense to the legislation.

We recognize that the Department of Defense has a number of very difficult and acute problems. The character of the responsibilities of the Defense Department is such that we want to be extremely careful that we don't, in an effort to improve bookkeeping, interfere in any way with the national defense, even to the most minor degree. They are concerned, they are worried, that in the absence of this, they could get into trouble on current appropriations with possible repercussions on effective programing and in terms of their relationships with the Appropriations Committee and a number of other matters.

Solely for those reasons and because we doubt that a situation is likely to arise under which this proviso will be used, we are perfectly agreeable to seeing it included in the bill.

Senator COTTON. Have your legal people passed on it? Are they sure it is constitutional and doesn't open the way for expenditures without appropriations by Congress?

Mr. FINAN. Yes, sir; I understood you were concerned about this provision of the bill in that respect and I discussed with our legal staff last night these issues and they tell me they are perfectly satisfied that there is no problem of that kind involved in this provision.

Senator KENNEDY. Do you think it would be of any assistance in meeting the problem that Senator Cotton suggested if we had the report made to the General Accounting Office or the Appropriations Committee of Congress so that we would all be reassured?

Mr. FINAN. We wouldn't have any objection to requiring reports under this proviso either to the General Accounting Office or the Appropriations Committee, Mr. Chairman.

As I say, we think you will get few, if any, such reports.

Senator KENNEDY. Mr. Bordner, do you feel that would be a satisfactory amendment to the amendment suggested on page 2, to require that these reports be filed with the GAO and perhaps give the Congress a little more information about it?

Mr. BORDNER. Yes, Mr. Chairman, I think that is perfectly in order.

(The amendment proposed for section 1, page 2 of the committee print is as follows:)

: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liqui-

date obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this Act: *Provided further*, That the head of the agency concerned shall make a report with respect to each such restoration to the chairman of the Committees on Appropriation of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget.

Senator KENNEDY. This amendment on page 8 would permit the Appropriations Committee to excuse any department or agency from the provisions of this act, as I understand it.

Mr. FINAN. That is correct, sir.

Senator KENNEDY. We will excuse you just for a minute, Mr. Finan. We would like to have Mr. Bordner from the Defense Department take the witness chair for a few minutes.

**STATEMENT OF HOWARD W. BORDNER, DEPUTY COMPTROLLER
FOR ACCOUNTING POLICY, DEPARTMENT OF DEFENSE**

Senator COTTON. You heard the questions that I asked of Mr. Finan about this provision and the doubts that I had in connection with it and I thought due to the fact that none of us want to hamper the Department of Defense, certainly, you might have some comment on this and you might reassure us.

Mr. BORDNER. I don't know that I can add much to the comments of Mr. Finan. I think he made the point that first you could not obligate the old account for any new obligations. It could only be used to adjust and liquidate or remove obligations, legitimately incurred prior to the end of the respective fiscal year on which the appropriation expired.

I think, second, he made the point that you could not restore, by this proposed amendment, any sums except first as required to meet payments under the obligations, legitimately incurred, and in no case could you restore more than the original amount which had lapsed, reverted to the Treasury, so to speak, and I think, third, he made the point, in comparison with the present situation, where those sums are carried under the certified claims account, even beyond the 2-year period. In other words, there would be returned to the Treasury, by this amendment, amounts in advance of what is now the current situation.

He has indicated also that the General Accounting Office would naturally audit the appropriation account.

I think I might add just one point. I believe it would be normal procedure for the Treasury Department to check on the amounts that might be requested for restoration and refuse to restore any amount which could not be legitimately restored based on the original amounts which had lapsed.

Senator COTTON. Where do you find the authority for that in the proviso?

Mr. BORDNER. I find it only by implication.

Senator COTTON. Could you go back several years on a transaction and recapture the appropriation?

Mr. BORDNER. Yes; if justified, but again, Mr. Finan made the point that the bill in its other provisions requires the head of the agency at all times to measure the adequacy of the balance, and if you have enough funds in the appropriation, because certain obligations have

been liquidated at less than the amounts originally estimated, you would have those funds available and they would have to be used first before you even made a request for restoration.

There is also in the bill, I believe, a proviso that as the agency establishes the fact that there are excessive funds available in the prior years' appropriations as a result of liquidation of obligations at less than the amounts asked for, those excesses would also have to be canceled or lapsed.

Senator COTTON. Is it your opinion with respect to the Defense Department, you agree with Mr. Finan as a man of practical experience, that the overage on some would balance the inadequacy of others : o that the two would balance?

Mr. BORDNER. Not entirely. That would be true in some appropriations perhaps, but not in others.

Our problem, Senator, I believe is largely in those annual appropriations where we have a mixture of procurement. While we use no-year appropriations generally for procurement, we have certain cases, particularly the Navy, as has been testified to, where there is a certain amount of procurement under the annual appropriations and it is largely in connection with those appropriations where the contracts contain escalator clauses and so forth. And I think in those appropriations, it would not be at all unusual to use this privilege.

Senator COTTON. So you feel that for the safety of our program of national defense you must have something in there to enable the head of your Department, without seeking any more authority from Congress, without anything from Congress, but simply notifying and reporting to it afterward and to the Bureau of the Budget, be able to recapture those parts of lapsed appropriations that were found to be necessary to complete the transactions for which they were originally appropriated.

Mr. BORDNER. Yes, Senator, but also in recognition of the fact that the authority had once been obtained from the Congress to cover that. It isn't the same as escaping, going to Congress for the authority.

Senator COTTON. Assuming that this bill should become law, the whole purpose of this bill, as I understand it, is to cause those appropriations unused, unobligated, portions of those appropriations to go off the books and lapse.

Assuming this bill is on the statute books, it would be a recapturing of funds previously appropriated that had lapsed, is that right?

Mr. BORDNER. Yes, sir.

Senator KENNEDY. Mr. Bordner, is this bill satisfactory to the Defense Department?

Mr. BORDNER. It is.

Senator KENNEDY. Thank you very much.

The hearing on S. 3362 is now ended. The hearing on S. 3199 is recessed subject to the call of the Chair. The subcommittee will go into executive session and I would like the officials from the General Accounting Office to wait, please. I want to thank the rest of you for coming here today.

(Whereupon, at 10:50 a. m., the subcommittee went into executive session.)

At the conclusion of the hearings, Chairman Kennedy of the Subcommittee on Reorganization requested the representatives of the Bureau of the Budget, the Department of the Treasury, and the Office of the Comptroller General,

in cooperation with the staff of the subcommittee to redraft a new bill to include the suggested amendments upon which there was general agreement. The new bill, S. 3897, was introduced in the Senate on May 21, 1956.

(Subsequently, the following communications relating to S. 3199 were received by the subcommittee:)

PRICE WATERHOUSE & Co.,
New York, N. Y., March 27, 1956.

HON. JOHN F. KENNEDY,

Chairman, Subcommittee on Reorganization, Senate Committee on Government Operations, Senate Office Building, Washington, D. C.

DEAR SENATOR KENNEDY: In connection with the consideration of Senate bill 3199 by your subcommittee, I am sending you herewith 10 copies of a letter dated November 15 from the Professional Council on Federal Financial Administration to the Honorable William L. Dawson, chairman, Committee on Government Operations of the House of Representatives. This letter sets forth in some detail the views of the council on the Hoover Commission's report to the Congress on budget and accounting. Inasmuch as Senate bill 3199 is designed to implement many of the recommendations of the Hoover Commission report, the views of the council are pertinent to the provisions of the bill.

The Professional Council on Federal Financial Administration, of which I am chairman, was organized approximately 5 years ago in order to provide an independent group of persons who are qualified by education and experienced in governmental accounting and financial matters for consultation to the executive and legislative branches of the Government. The council has kept closely in touch with the progress of the joint committee for improvement in accounting in the Federal Government carried out in recent years through cooperative effort of the General Accounting Office, the Bureau of the Budget and the Treasury Department. The council has made an extended study of the Hoover Commission Report on Budget and Accounting as well as the related task force report. Accordingly I believe that the comments in the accompanying letter merit your consideration and incorporation in the record of the hearings of the Subcommittee on Reorganization.

Sincerely yours,

PAUL GRADY,

THE PROFESSIONAL COUNCIL ON FEDERAL FINANCIAL ADMINISTRATION,
November 15, 1955.

HON. WILLIAM L. DAWSON,

Chairman, Committee on Government Operations, House of Representatives.

DEAR MR. CHAIRMAN: The Professional Council on Federal Financial Administration is submitting herein its views on the recommendations of the Hoover Commission on budget and accounting for the consideration of the Committee on Government Operations of the House of Representatives.

The Professional Council on Federal Financial Administration was organized approximately 5 years ago in order to have an independent group of persons, who are qualified by education and experience in governmental accounting and financial matters, available for consultation to the Government and other public organizations. The council has kept closely in touch with the progress in the joint program for improvement in accounting in the Federal Government carried out in recent years through cooperative effort of the General Accounting Office, the Bureau of the Budget, and the Treasury Department. As a basis for this letter, the council has studied the Hoover Commission's report to the Congress on budget and accounting and the related task force report and has held extensive meetings with the chairman of the task force and with representatives of the General Accounting Office, Bureau of the Budget, and the Treasury Department.

The council enthusiastically endorses the underlying concepts that are embodied in the Hoover Commission recommendations; namely, that budgeting and accounting for operating programs should be primarily in terms of the cost of resources consumed, and that budgeting and accounting of capital, or long lead time, programs should be primarily in terms of accrued expenditures. We have also studied the letter dated October 26, 1955, addressed to you by the Comptroller General of the United States and we are in agreement with many of his interpretative comments relating to particular recommendations or groups of recommendations. We shall deal with the 25 specific recommendations of the Hoover

Commission and refer to and endorse some of the Comptroller General's comments without repetition in order to shorten and simplify this letter.

RECOMMENDATIONS RELATING TO THE BUREAU OF THE BUDGET

(Part II Commission Report)

Recommendation No. 1

(a) That the Bureau of the Budget expand and make more effective the discharge of its managerial and budgeting functions;

(b) That in order to do this, among other things, it should place in important agencies one or more well qualified employees whose duties should include continuous year-round review, at the site of the agency, of agency budget preparation and administration and other facets of the Bureau's managerial responsibilities; and

(c) If necessary, the Congress should increase the resources of the Bureau of the Budget for that purpose.

Recommendation No. 2

That the executive agencies report annually to the Bureau of the Budget on the conduct of their operations. On the basis of the agencies' reports and other available information, the Bureau should prepare for the President an annual report on performance for the executive branch as a whole.

Recommendation No. 3

That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

We endorse these three recommendations. In respect of the first recommendation we would emphasize the point that funds expended to increase the effectiveness of the Bureau of the Budget should be returned manyfold through disclosure of unnecessary and wasteful activities in various Government departments and agencies. In regard to the second and third recommendations we agree with the interpretative comments of the Comptroller General.

RECOMMENDATIONS RELATING TO THE PERFORMANCE (OR PROGRAM) BUDGET

(Part III Commission report)

Recommendation No. 4

That the executive budget continue to be based upon functions, activities, and projects adequately supported by information on program costs and accomplishment, and by a review of performance by organizational units where these do not coincide with performance budget classifications.

Recommendation No. 5

That the agencies take further steps to synchronize their organization structures, budget classifications, and accounting systems.

Recommendation No. 6

That executive agency budgets be formulated and administered on a cost basis.

We endorse recommendations No. 4, 5, and 6 as well as the related comments of the Comptroller General.

RECOMMENDATIONS RELATING TO RESTORATION OF CONGRESSIONAL CONTROL OF THE PURSE

(Part IV Commission Report)

Recommendation No. 7

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures, namely charges for the cost of goods and services estimated to be received.

Recommendation No. 8

That legislation committing the Government to continuing expenditures for special programs which are not susceptible to the usual budgetary control ordi-

narily be enacted for a limited term in order to require periodic congressional review of their usefulness.

Recommendation No. 9

That the Bureau of the Budget keep such programs under continuing review, and the President's budget contemplate amendments to them when their operation conflicts with current budgetary policy.

We endorse recommendations No. 7, 8, and 9. We also agree with the comments of the Comptroller General relating to recommendation No. 7. In reference to this recommendation, the council points out that the report does not explain the means by which budgets and appropriations made on an accrued expenditures basis are to be tied in with other accounting and budgeting controls which, in accordance with recommendations 3, 6, and 14, are to be on a cost basis. We suggest that the appropriate agency take steps to clarify this matter.

RECOMMENDATIONS RELATING TO ORGANIZATION FOR ACCOUNTING IN THE EXECUTIVE BRANCH

(Part V Commission report)

Recommendation No. 10

That there be established under the Director of the Bureau of the Budget a new Staff Office of Accounting headed by an Assistant Director for Accounting, with powers and duties as follows:

(a) To develop and promulgate an overall plan for accounting and reporting, consistent with broad policies and standards prescribed by the Comptroller General. These broad policies and standards should continue to be developed in cooperation with the executive branch.

(b) To expedite, guide, and assist in the introduction of modern accounting methods in the executive agencies consistent with the overall plan.

(c) To set reasonable but definite time schedules for performance and to watch progress.

(d) To stimulate the building of competent accounting and auditing organizations in the executive agencies and to assist actively in the selection, training, and retention of capable personnel.

(e) To report at least annually to the Budget Director with respect to the status of accounting in each of the executive agencies.

Recommendation No. 11

That as an aid to financial management the position of Comptroller be established in the principal agencies and major subdivisions thereof embracing the following duties and functions:

(a) To direct the setting up and maintenance throughout his agency of adequate accounting and auditing systems and procedures in conformity with the provisions of the Budget and Accounting Procedures Act of 1950.

(b) To direct the recruitment, training, and development of qualified accounting personnel.

(c) To develop and be responsible for reliable and informative financial reports for (1) internal management purposes and (2) for issue to the Congress and other executive departments or agencies.

(d) To interpret and advise upon significant aspects of the financial reports.

(e) To direct the preparation, and review execution of budgets prepared at operating levels for the information of top management which is responsible for budget policies.

Recommendation No. 12

That the selection of agency Comptrollers and the building of competent accounting organizations in the executive agencies through the selection, training, and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget.

We endorse recommendations Nos. 10, 11, and 12 and agree with the related comments of the Comptroller General. Our comments on recommendation No. 1 are fully applicable to recommendation No. 10.

RECOMMENDATIONS RELATING TO ACCOUNTING PROCEDURES IN EXECUTIVE AGENCIES

(Part VI Commission report)

Recommendation No. 13

That the allotment system be greatly simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Recommendation No. 14

That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities, and the cost of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

Recommendation No. 15

That after appropriate accrual and cost accounting techniques have been established by the Government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.

Recommendation No. 16

That the executive agencies accelerate the installation of adequate monetary property accounting records as an integral part of their accounting systems.

Recommendation No. 17

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Recommendation No. 18

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies.

Recommendation No. 19

That the Comptroller General be given the authority to relieve accountable officers of financial liability except where losses result from their gross negligence or fraud.

* * * * *

We endorse recommendations No. 13 to 19, inclusive. We agree with the comments of the Comptroller General relating to recommendations No. 13 to 18, inclusive.

In further reference to recommendation No. 15, we are assured by the chairman of the task force that there is no implied criticism of working capital funds now in existence, nor a presumption that the working capital device will become outmoded.

RECOMMENDATIONS RELATING TO CENTRAL ACCOUNTING AND REPORTING

(Part VII Commission report)

Recommendation No. 20

That the Bureau of the Budget and General Accounting Office make a study to determine what can be done to eliminate: (a) Duplicate accounts within the Treasury Department; and (b) Duplicate accounting as between the Treasury Department and the various departments and agencies.

Recommendation No. 21

That increased and continuing emphasis be placed upon the review and modernization of central fiscal reports by the Treasury Department to the end that they meet the changing requirements of the executive branch, the Congress, and the public. These fiscal reports should show the Government's cash position and related cash transactions.

Recommendation No. 22

That Congress consider amending the Budget and Accounting Procedures Act of 1950 to make the Bureau of the Budget responsible for developing com-

prehensive reports (other than purely fiscal reports) showing the financial results of the activities of the Government as a whole and of its major component activities.

We endorse recommendations No. 20, 21, and 22. The Comptroller General's comments regarding these recommendations deal mainly with the improvements already made or in prospect in the area of central accounting and reporting as a result of the cooperative program for improvement in accounting. Our commendations for the improvement in this and other areas will be expressed in a later part of this letter.

RECOMMENDATIONS RELATING TO THE DEPARTMENT OF DEFENSE

(Part VIII Commission report)

Recommendation No. 23

That in selecting individuals for comptrollership, civilians with broad management and accounting experience and competence be appointed.

Recommendation No. 24

That the comptrollers in the military departments be responsible only to the Secretary of their respective services, and that concurrent responsibility to a Chief of Staff or equivalent be discontinued.

We endorse the objective in recommendation No. 23 of assuring competence of the individuals on whom responsibility for leadership in financial management is placed. However, we agree with the task force that competent personnel can be found in the military as well as in civilian ranks. Accordingly, if the military departments would recognize the need for career specialists and make appropriate changes in their rotation and promotion policies, we would agree with the task force recommendation that comptrollers could be either military or civilian or both.

Nine of the members of this council endorse recommendation No. 24. Dr. Anthony dissents. Although he recognizes that concurrent responsibility is usually unsatisfactory in a business organization, he believes that there are sound management reasons for continuing this concurrent responsibility in one or more of the military departments.

RECOMMENDATIONS RELATING TO AUDITING AND THE GENERAL ACCOUNTING OFFICE

(Part IX Commission Report)

Recommendation No. 25

That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

We endorse recommendation No. 25.

Many of the recommendations are closely interrelated and it is our view that the first 18 should be dealt with as a whole rather than separately. If all 25 recommendations were adopted and properly implemented the executive departments and the Congress would have adequate data as a basis for decisions and for judging performance of the departments and agencies. Such information would include for each major program (1) past costs in relation to accomplishments, (2) resources available in terms of inventories and funds carried over, (3) estimated costs of all resources to be consumed in ensuing fiscal year, (4) estimated accrued expenditures needed to be authorized for ensuing fiscal year, and (5) new contracting authority needed for periods beyond such fiscal year. We cannot overemphasize the need for placing the Government's accounting and budgeting on a synchronized cost basis, with costs determined in accordance with sound accrual accounting principles. The cost basis of accounting and budgeting as used in the Hoover Commission report means the reasonable ascertainment of resources used for major programs and by major centers of organizational responsibility. It does not, in our opinion, contemplate intricate and detailed unit of production cost systems of the type associated with manufacturing operations. We make this distinction because it appears that a misunderstanding on this point may have caused dissents by two of the members of the Commission.

In concluding this letter, we wish to express our commendation for the substantial improvement in accounting in the Federal Government which has been accomplished in recent years through the joint program of the General Accounting

Office, the Bureau of the Budget, and the Treasury Department. The progress made is a tribute in part to the technical competence of the individuals assigned to the joint program. To an even greater degree, it is attributable to the fine spirit of cooperation which has been developed between these agencies which share the responsibility for leadership in accounting and budgeting matters and to their understanding of the necessity for assisting each executive agency in the development of accounting and budgetary systems which will be most useful in meeting its financial and general management responsibilities. It is our view that the adoption of the Hoover Commission recommendations on budget and accounting will greatly forward the program for improvement and will in no way impede the cooperative working relationships.

Respectfully submitted.

Herbert S. Taggart, Robert N. Anthony, American Accounting Association; Raymond G. Lochiel, G. A. Mills, Controller's Institute of America; Earle H. Cunningham, Charles J. Ghesquiere, Institute of Internal Auditors; Joseph M. Lowery, Joseph M. Cunningham, Municipal Finance Officers' Association; Weldon Powell, Paul Grady, Chairman, American Institute of Accountants.

CHAMBER OF COMMERCE OF THE UNITED STATES,

Washington, D. C., March 28, 1956.

Hon. JOHN F. KENNEDY,

*Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
Senate Office Building, Washington, D. C.*

DEAR SENATOR KENNEDY: The Chamber of Commerce of the United States favors enactment of principles and objectives of S. 3199.

That measure would put into effect many proposals of the Commission on Organization of the Executive Branch of the Government for improving the budget and accounting procedures of the Government. Performance budgeting and cost-based budgets have long been recognized as a highly desirable improvement in the Government's budgetary process. There should be more effective control by the Bureau of the Budget over preparation and administration within the Government agencies. The Government has long needed an improved uniform accounting system on an accrual basis.

Legislation such as S. 3199, directed at these objectives, would lead to much better fiscal administration by the Government, and should lay the groundwork for sizable savings in annual operating costs through more effective control over the spending activities of the various Government agencies.

The Bureau of the Budget is to be commended for its recent action giving more prominence to its accounting group. Legislation such as is contemplated would be of important help to that office by arming the Assistant Director in charge of this function with adequate authority to do his job, as well as by signifying that the program has congressional backing.

We recognize that discretionary authority already exists under the Budget and Accounting Procedures Act of 1950 to put into effect many of these proposals. By passing that act, Congress indicated that action should be taken along these general lines, but relatively little has been done. We think it is time for mandatory legislation.

The Government's cash basis system of accounting and budgeting is extremely antiquated. Accrual accounting has been successfully used for many years by business concerns and is universally accepted as the standard method. Adoption of the accrual system would make it possible to do away with the system of appropriation carryovers and restore to Congress full control over the Government's fiscal operations—a control which has been lost in large measure in recent years as the carryover system has come into more extensive operation.

It is recognized that it would take time to put the accrual accounting recommendations into effect. One problem here will be to adapt accrual accounting to the requirements of government. The ultimate result, however, will be to the advantage of the Government and its citizens.

Performance budgeting, which this program would make possible, means primarily a fiscal program in terms of jobs to be done rather than in terms of the number of people to be hired, so many reams of paper to be purchased, or tons of food to be bought. It makes it possible to relate the things Government

does to their overall cost, and thus an appraisal of their worthwhileness in terms of dollars.

The establishment of a comptroller setup for each department would appear to be a step forward. Many departments now have officers, and in some cases designated "comptrollers" and in others other designations. Development along this line, however, has not been uniform, and establishment of a Staff Office of Accounting to direct the Government's accounting activities and to operate a new system of accounts is a commendable procedure.

In view of these important considerations, we hope that your committee will report favorably a bill to put into effect these important proposals for improving the Government's fiscal administration.

I would appreciate it if you would make this letter a part of the record of your current hearings.

Cordially yours,

CLARENCE R. MILES.

AMERICAN INSTITUTE OF ACCOUNTANTS,
New York, N. Y., May 3, 1956.

HON. JOHN L. McCLELLAN,
*Chairman, Committee on Government Operations,
United States Senate, Washington, D. C.*

DEAR SENATOR McCLELLAN: The executive committee of the American Institute of Accountants has studied the recommendations of the Hoover Commission on Budget and Accounting as well as the related task-force report. The American Institute of Accountants is the national organization of certified public accountants. We believe we are qualified to appraise these recommendations and have a responsibility to make our views known to the Committee on Government Operations of the Senate.

It is general knowledge that budgeting and accounting in the Federal Government has not reached the same degree of effectiveness as an instrument providing essential information needed for sound management as has been attained in the field of business. The need for adequate and dependable information is even greater in Government because of the staggering aggregate of Government expenditures and because of the dependence of the top executive officials and of the Congress on such data as a basis for their decisions.

It is important that budgeting and accounting go hand in hand. Both budgets and accounts should reflect actual performance in terms of incurred cost and not in terms of cash paid out. To insure control in the Congress of budgetary items with long lead time, annual review and ratification of such items by the Congress should be required.

We believe the Hoover Commission recommendations accomplish these objectives. If fully adopted and properly implemented, they would provide the type of budgetary and accounting controls needed for good management in Government. Many of the recommendations, particularly the first 18, constitute an interrelated pattern which must be adopted as a whole in order to produce an effective system. We fully endorse the Hoover Commission recommendations on budget and accounting.

If we can be of assistance to your committee in its consideration of this part of the Hoover Commission report and of S. 3199, please feel at liberty to call upon us.

Respectfully submitted,

JOHN H. ZERLEY, Jr., *President.*

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TO SIMPLIFY ACCOUNTING, FACILITATE
THE PAYMENT OF OBLIGATIONS, AND
FOR OTHER PURPOSES

HEARINGS
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

H. R. 9593, H. R. 7658, and H. R. 7688

BILLS TO SIMPLIFY ACCOUNTING, FACILITATE THE
PAYMENT OF OBLIGATIONS, AND FOR
OTHER PURPOSES

MARCH 27, 1956

Printed for the use of the
Committee on Government Operations



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CONTENTS

	Page
H. R. 7658-----	3
H. R. 7688-----	3
H. R. 9593-----	1
Statement of—	
Cake, Gilbert L., Associate Commissioner, Bureau of Accounts, Treasury Department-----	38
Hiestand, Hon. Edgar W., a Representative in Congress from the State of California-----	10
Keller, Robert F., assistant to the Comptroller General-----	13
Lanman, Maurice H., Jr., Assistant General Counsel, Department of Defense, Fiscal Matters-----	25
Letters, statements etc., submitted for the record by—	
Brundage, Percival, Acting Director, Bureau of the Budget: Letter to Hon. William L. Dawson March 16, 1956-----	6
Buddeke, Richard A., Director, Legislative Programs, Office of the Assistant Secretary of Defense: Letter to Hon. William L. Dawson, March 26, 1956-----	9
Campbell Hon. Joseph, Comptroller General of the United States: Letter from Hon. Joseph Campbell to Hon. William L. Dawson, March 8, 1956-----	4
Hiestand, Hon. Edgar W., a Representative in Congress from the State of California: Excerpt from the Budget and Accounting Act of 1921-----	10
Keller, Robert F., assistant to the Comptroller General:	
Excerpt from Commission Report on Budget and Accounting-----	14
Proposed amendment to H. R. 9593-----	22, 23
McCormack, Hon. John W., a Representative in Congress from the State of Massachusetts:	
Letter from Hon. Marguerite Stitt Church, to Hon. William L. Dawson, March 23, 1956-----	8 34
Proposed amendment to H. R. 9593-----	
Rappaport, Percy, Acting Director, Bureau of the Budget: Letter from Percy Rappaport, to Hon. William L. Dawson, August 29, 1955-----	4
Sheeley, Rear Adm. W. R., Acting Judge Advocate General of the Navy: Letter from Rear Adm. W. R. Sheeley, for the Secretary of the Navy, to Hon. William L. Dawson, March 8, 1956-----	6

SECTION

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TO SIMPLIFY ACCOUNTING, FACILITATE THE PAYMENT OF OBLIGATIONS, AND FOR OTHER PURPOSES

(H. R. 9593, H. R. 7658, and H. R. 7688)

TUESDAY, MARCH 27, 1956

HOUSE OF REPRESENTATIVES,
EXECUTIVE AND LEGISLATIVE
REORGANIZATION SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D. C.

The subcommittee met at 10 a. m., on Tuesday, March 27, 1956, Hon. John W. McCormack presiding.

Present: Messrs. McCormack (presiding) and Jones, Mrs. Harden, and Messrs. Brown and Jonas.

Also present: Elmer W. Henderson, subcommittee counsel.

Mr. McCORMACK. The subcommittee will be called to order.

These hearings are being held to obtain information for the subcommittee on H. R. 9593, introduced by Chairman Dawson; H. R. 7658, introduced by Congresswoman Church; and H. R. 7688, introduced by Congressman Hiestand. The purpose of all three bills is to change the present system of payment of certain claims against the Government where the appropriations therefor have lapsed, and for other purposes.

H. R. 7658 and H. R. 7688 are identical and were designed to carry out a recommendation of the Hoover Commission.

H. R. 9593, with certain amendments to be proposed, has been approved by the Bureau of the Budget, the Comptroller General, and the Department of the Treasury.

I would like the text of H. R. 9593, H. R. 7658, and H. R. 7688 to be placed in the record at this point. Following the bills I would like the reports from the agencies to be placed in the record also.

(The bills and reports follow:)

[H. R. 9593, 84th Cong., 2d sess.]

A BILL To simplify accounting, facilitate the payment of obligations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, except as otherwise provided by law, (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the activity responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but

if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation as of the close of the fiscal year as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals required pursuant to subsection (a) of this section shall be accounted for as reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically, but at least once each fiscal year, by each activity responsible for the liquidation of the obligations chargeable to such accounts. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess shall be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hercof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the activity currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled or will not be undertaken or continued; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed:

(a) The proviso under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia.

[H. R. 7658, 84th Cong., 1st sess.]

A BILL Relating to the payment of certain claims against the Government where the appropriations therefor have lapsed

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding the provisions of section 305 of the Budget and Accounting Act of 1921, hereafter whenever any executive department or agency is requested to make payment of a claim against it with respect to which the appropriation therefor has lapsed, if a valid voucher has been issued by an accounting officer of such department or agency in the regular and ordinary course of business, the payment of such claim shall be made by such department or agency in the same manner as in the case of a claim as to which there is an available appropriation in lieu of its being submitted to the General Accounting Office, recorded on its records, and subsequently referred to the Treasury Department for payment out of the "payment of certified claims" account: *Provided*, That the settlement of all such claims shall be subject to review and audit by the General Accounting Office, and each such executive department and agency shall retain so much of the unexpended balances of each appropriation which has lapsed as it determines to be necessary to provide for the payment of all claims which would normally be payable out of such appropriation.

[H. R. 7688, 84th Cong., 1st sess.]

A BILL Relating to the payment of certain claims against the Government where the appropriations therefor have lapsed

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding the provisions of section 305 of the Budget and Accounting Act of 1921, hereafter whenever any executive department or agency is requested to make payment of a claim against it with respect to which the appropriation therefor has lapsed, if a valid voucher has been

issued by an accounting officer of such department or agency in the regular and ordinary course of business, the payment of such claim shall be made by such department or agency in the same manner as in the case of a claim as to which there is an available appropriation in lieu of its being submitted to the General Accounting Office, recorded on its records, and subsequently referred to the Treasury Department for payment out of the "payment of certified claims" account: *Provided*, That the settlement of all such claims shall be subject to review and audit by the General Accounting Office, and each such executive department and agency shall retain so much of the unexpended balances of each appropriation which has lapsed as it determines to be necessary to provide for the payment of all claims which would normally be payable out of such appropriation.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., August 29, 1955.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: This will acknowledge your letters of August 1, 1955, inviting the Bureau of the Budget to comment on H. R. 7658 and H. R. 7688, bills "Relating to the payment of certain claims against the Government where the appropriations therefor have lapsed."

These bills have as their objective the simplification of procedures for the payment of claims chargeable to lapsed appropriations. This office is in accord with this objective and is now working with the General Accounting Office and the Treasury Department to determine what additional language may be needed to insure proper handling of the accounting and other technical details. Our suggestions on this will be forwarded to you shortly.

Sincerely yours,

PERCY RAPPAPORT, *Acting Director.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 8, 1956.

B-52215, B-65311, B-118094.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives.*

DEAR MR. CHAIRMAN: Your letter of March 1, 1956, acknowledged March 2, requests a report on H. R. 9593, 84th Congress.

The problems involved in the liquidation of prior-year obligations have been of considerable concern to us for some time. The Surplus Fund-Certified Claims Act of July 6, 1949, 31 U. S. C. 712 (b), represented a substantial step forward in procedures for the payment of stale obligations. By making lapsed appropriations available on a continuing basis for the payment of outstanding obligations, it eliminated the formerly existing necessity for budgetary review and congressional approval to restore funds which already had been appropriated so that they could be used for payment of legal liabilities. It speeded up payment of creditors, thereby promoting improved relations with the public, and it effected substantial economies by reducing correspondence concerning pending claims. However, this legislation also has certain deficiencies. These include the necessity for the maintenance in the General Accounting Office of detailed ledgers of account for the lapsed appropriations transferred to the "Payment of Certified Claims" account and the substantial utilization of the services of our professional claims adjudicators and supporting personnel in the processing of transactions under that account. Also, since the "Payment of Certified Claims" account is classified as a Treasury Department appropriation account, all liquidations of outstanding obligations against lapsed appropriations are recorded on the books of the Government as expenditures of that Department, rather than as expenditures of the agencies benefiting therefrom. This accounting treatment overstates expenditures of the Treasury Department and correspondingly understates expenditures of the agencies which incurred the obligations.

In addition, developments under the Joint Accounting Program, as authorized by the Budget and Accounting Procedures Act of 1950, have materially changed earlier concepts as to the responsibilities of the several agencies of the Government, including those of the General Accounting Office. Prime responsibility for estab-

lishing and maintaining adequate systems of accounting and internal control have been vested in the agencies, in accordance with broad principles, standards, and related requirements prescribed by us, and with the further responsibility vested in us to audit financial transactions of the agencies. Improvements in agency accounting following recognition of these new concepts have substantially eliminated the need for advance approval by the General Accounting Office of many types of payments, and as a result of decentralization of agency accounting, centralized payment procedures such as those contemplated by the "Certified Claims" Act have become cumbersome and unnecessary. Experience has conclusively established the obligations liquidated from the "Payment of Certified Claims" account largely represent routine transactions.

We thus believe that the liquidation of prior-year obligations can be handled under regular disbursement and postaudit procedures with substantial decreases in cost and with no sacrifice of appropriate safeguards, as proposed by H. R. 9593. This proposed legislation also would remedy the deficiencies under existing law by eliminating the necessity for the maintenance in the General Accounting Office of numerous detailed ledgers of account for all prior-year lapsed appropriations and by permitting substantially all liquidation of outstanding obligations to be recorded on the books of the Government as expenditures of the agencies which incurred the obligations and benefited therefrom.

This proposed legislation substantially would carry out recommendations Nos. 17 and 18 of the Report to the Congress on Budget and Accounting of the Hoover Commission. These recommendations were to the effect that all prior-year obligations under the same appropriation or fund be merged with the current appropriation, thereby having only one account under each appropriation or fund. We agree with this concept as to appropriations made on an annual accrued expenditure basis in accordance with recommendation No. 7 of the Hoover Commission. However, as long as appropriations continue to be stated on an obligation basis, we strongly recommend that prior year obligated balances be merged into one consolidated account as proposed by H. R. 9593 and not commingled with current appropriations. There thus would be no opportunity to use amounts not needed to liquidate prior-year obligations for current expenses.

Particular attention is invited to sections 1 (c) and 6 of the bill. Under existing law (31 U. S. C. 690), all collections which would otherwise be creditable as appropriation repayments must be deposited into the Treasury as miscellaneous receipts in the event they are not received until the applicable appropriation has lapsed. The effect of section 1 (c), together with the repeal of 31 U. S. C. 690, as proposed by section 7 (a) of the proposal, is to remove this requirement, it being our feeling, which also is shared by the Bureau of the Budget and the Treasury Department, that such recollection of collections—many of which represent nothing more than interagency reimbursements—has the undesirable effect of overstating Government income and disbursements. In the debt-collection activities of the General Accounting Office, however, owing to such factors as the expense involved in identifying applicable appropriations, it is impracticable in many cases for us to apply all collections as appropriations repayments. In such circumstances, we consider it desirable that we be given the option of depositing collections as miscellaneous receipts as proposed by section 1 (c).

As to section 6, it has been our experience that agencies rarely, if ever, initiate action to close out no-year appropriations with the result that such accounts—often with trifling balances—remain open on the Government's books long after the projects for which they were provided have been completed. Under section 3691, Revised Statutes, as amended (31 U. S. C. 715), which the draft proposes to repeal, the Secretary of the Treasury has the authority to include balances in such accounts on surplus warrants without agency approval, but the archaic requirements of such section of the Revised Statutes for certifications by this Office that the balances are not needed for the payment of obligations and the settlement of accounts have acted as deterrents to the effective implementation of the provision. Section 6 will permit the orderly accomplishment of the purposes contemplated by the outmoded and ineffectual section 3691 and is believed desirable.

We believe that the proposed legislation is sound in principle and will materially advance the cause of accounting improvement in the Government. We, therefore, strongly urge that favorable consideration be given to this proposal.

A more detailed history of this proposal is contained in our letter of December 20, 1955, B-52215, B-65311, B-118094, to you.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

DEPARTMENT OF THE NAVY,
OFFICE OF THE JUDGE ADVOCATE GENERAL,
Washington, D. C., March 8, 1956.

HON. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Your request for comment on H. R. 7658 and H. R. 7688, identical bills relating to the payment of certain claims against the Government where the appropriations therefor have lapsed, has been assigned to this Department by the Secretary of Defense for the preparation of a report thereon expressing the views of the Department of Defense.

The purpose of these bills is to allow the executive agencies to make payment of claims, where the appropriation therefor has lapsed, without the necessity of forwarding the claim to the General Accounting Office for certification and further forwarding to the Treasury Department for payment out of the "Payment of certified claims" account.

Pursuant to the act of July 6, 1949 (ch. 299, 63 Stat. 407; 31 U. S. C. 712b) except where specifically provided otherwise, all appropriations that have remained upon the books of the Government for 2 years, shall, on July 1 in each year, lapse. The moneys so lapsed are transferred by the Secretary of the Treasury to an account known as "Payment of certified claims." Claims presented for payment, where the appropriation has lapsed are forwarded to the General Accounting Office for certification and are thereafter forwarded to the Treasury Department for payment from the account "Payment of certified claims."

The Department of the Navy, on behalf of the Department of Defense is in accord with the purpose of H. R. 7658 and H. R. 7688, but it should be noted that the Bureau of the Budget, the General Accounting Office, and the Treasury Department are currently engaged in preparing a draft of proposed legislation concerning this subject.

In view of the foregoing, the Department of the Navy, on behalf of the Department of Defense, requests that action on H. R. 7658 and H. R. 7688 be held in abeyance pending the submission of the draft of legislation by the Bureau of the Budget.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Department of the Navy has been advised by the Bureau of the Budget that there is no objection to the submission of this report on H. R. 7658 and H. R. 7688 to the Congress.

Sincerely yours,

W. R. SHEELEY,
*Rear Admiral, USN,
Acting Judge Advocate General of the Navy
(For the Secretary of the Navy).*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., March 16, 1956.

HON. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: This is in response to your letters of March 1 and March 13, 1956, requesting the views of the Bureau of the Budget on H. R. 9593, a bill "To simplify accounting, facilitate the payment of obligations, and for other purposes."

This bill would substantially carry out the objectives of Recommendation Nos. 17 and 18 of the Commission on Organization of the Executive Branch of the Government in its report on budget and accounting.

We heartily endorse the objectives of the bill which would bring about improvements and simplifications in accounting and in the procedure for the payment of obligations against expired appropriations. More specifically, some of the major benefits which would result from the bill are as follows:

1. At the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made. The bill would authorize the Comptroller General to prescribe by regulations the conditions under which such payments may be made

without prior review by the General Accounting Office. This would bring about savings by eliminating the duplicate review. Also payments could be made more promptly.

2. The entire balance of each appropriation (both the obligated and the unobligated portion) is now carried in the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months thereafter, thus reducing the carryover of unexpended balances.

3. Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes and thereafter for at least 8 more years on a memorandum basis. In addition, after 2 years, the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment. This bill would bring about a large reduction in the number of accounts to be maintained both by the agencies and by the General Accounting Office. Under its provisions the obligated balances of expired accounts for prior years for the same general purposes would be merged so that usually each current year appropriation account would have a counterpart for prior year items. For the General Accounting Office alone, it is estimated that about 35,000 accounts could be eliminated.

4. Under present practices payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the Certified Claims Account maintained by the Treasury Department. The result is that such expenditures are reported as expenditures of the Treasury Department although the benefits were received by other agencies. Thus several hundred millions of dollars are budgeted and reported as a cost of the function of general government when actually a large part of this amount is for major national security and other functions. The bill would correct this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

5. The bill provides that the Comptroller General shall, in connection with his audit responsibilities, make an appraisal of the unliquidated obligations. This emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of the accounts.

In the interests of clarifying and otherwise improving the bill, we would suggest consideration of the following amendments:

1. Delete the words "except as otherwise provided by law on page 1, line 3, and in lieu thereof add the following new paragraph to the repeals on page 7, section 7:

"(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957."

At the present time there are some cases where existing provisions of substantive law continue the availability of appropriations for expenditure purposes for periods longer than the normal 2-year period after the period for which the appropriations are made. It is desirable, therefore, to bring such appropriations under the provisions of this bill in order to provide the authority to make payments subsequently. An example is the provision for certain research appropriations in the Agricultural Marketing Act of 1946. The language, which we suggest for deletion above, would exempt such cases from the provisions of the bill whereas the substitute would embrace such cases within the terms of the bill by repealing the special provisions providing extended availability for expenditure. Like the provision repealing the general authorization for extended availability for expenditure (subsec. (b) of sec. 7), the suggested language would not be effective until June 30, 1957. However, the suggested language would not repeal provisions for extended expenditure availability contained in 1956 or 1957 appropriation acts, but would leave the matter of extended expenditure availability for those appropriations to be considered individually in acting on 1958 budget estimates and appropriation acts.

2. Delete the word "activity" on page 1, line 8, and substitute "agency or subdivision thereof." We believe the substitute would clarify the meaning.

3. On page 2, lines 23 and 24, delete the words "as of the close of the fiscal year" and insert the same words after the word "account" on page 2, line 21. This change would clarify the point that the reviews of the accounting records required by section 1311 and the related reports pertain only to the obligated balance as of the close of the fiscal year.

4. Delete the words "required pursuant to subsection (a)" on page 3, lines 11 and 12, and substitute "made pursuant to subsections (a) and (b)." This would make it clear that September 30 is intended as the final closing date for action to be taken under section 1 (d).

5. Delete the words "activity responsible for the liquidation of the obligations chargeable to such accounts" on page 4, lines 8 and 9, and substitute "agency concerned." We believe "agency" would be more meaningful than "activity" and that the remainder of the clause is not necessary.

6. Delete the word "activity" on page 6, line 10, and substitute "agency or subdivision thereof" for the reason noted in 2 above.

7. Delete the words "or will not be undertaken or continued" on page 6, line 17. These words might carry the implication that the heads of the agency concerned could determine whether or not to carry out work specifically authorized by the Congress.

8. On page 7, add the following new section:

"SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

This new section provides that the Congress may consider each year the desirability of exempting any appropriation or appropriations from the provisions of this bill and so provide in appropriation acts without such provisions being subject to a point of order.

The amendments suggested above have been discussed with staff of the Treasury Department and the General Accounting Office, who concur therein. With these amendments, we strongly recommend the enactment of H. R. 9593 which would improve fiscal operations and bring about economies.

Sincerely yours,

PERCIVAL BRUNDAGE,
Acting Director.

Mr. McCORMACK. At this point I would like to introduce into the record a letter from Congresswoman Marguerite Stitt Church, the author of H. R. 7658.

(The letter follows:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., March 23, 1956.

HON. WILLIAM L. DAWSON,
*Chairman, Executive and Legislative Reorganization Subcommittee,
Committee on Government Operations,
House Office Building, Washington, D. C.*

DEAR MR. DAWSON: I very much appreciate your invitation to testify on H. R. 7658.

It is my understanding that with the introduction of H. R. 7658, the spark was provided to the General Accounting Office and the executive agencies to prepare the draft of H. R. 9593. Since this was prepared in the General Accounting Office, it appears to me to be legislation which would accomplish more thoroughly and more effectively the objectives of my own bill, H. R. 7658.

I would, therefore, like to give my full backing to your bill, H. R. 9593, as a replacement for H. R. 7658, if there is a possibility that this more extensive legislation can be reported out favorably. I would, of course, like to add that if H. R. 9593 does prove too extensive to meet the approval of the Committee on Government Operations and presumably, therefore, the Congress, I would be very happy to have consideration of the less inclusive bill, H. R. 7658.

In addition, may I thank you for introducing H. R. 9593, which certainly, in my thought, would go a long way in correcting the abuses and inadequacies of administration witnessed in present Government accounting methods.

With best wishes always, I am

Sincerely yours,

MARGUERITE STITT CHURCH.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
LEGISLATIVE AND PUBLIC AFFAIRS,
Washington, D. C., March 26, 1956.

HON. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives.

DEAR MR. CHAIRMAN: You have requested the views of the Department of Defense with respect to H. R. 9593, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill was apparently intended to implement 2 of the Hoover Commission recommendations No. 17 and No. 18.

Recommendation No. 18, which would provide for the agencies having jurisdiction over the funds to settle all claims arising under appropriations after they have expired for obligation rather than to have such claims settled upon certificates of the General Accounting Office is concurred in by the Department of Defense completely. It is our belief that no useful purpose has been served in having agencies receive claims, develop them, determine the amounts due and submit them to the Comptroller General for a practically pro forma consideration and then have them returned to the agency and paid by the agency's disbursing officers. Therefore, we believe that this recommendation will obviate currently unnecessary operation in the settlement of claims from the certified claims account.

With respect to the other aspect of H. R. 9593, which is apparently an attempt to implement recommendation No. 17, that all obligations be liquidated from a single account, we should like to point out that the bill moves only part of the distance in the direction of this worthwhile objective.

You will note that the bill provides for transfer on September 30 of each year of only those amounts certified as having been obligated under section 1311 of the Supplemental Appropriation Act as of June 30. This latter section was a recent enactment into law of statutory definition of obligations which the Department of Defense believes was a long overdue measure necessary to correct the erroneous as well as unsound practices with respect to recording and reporting obligations that had been going on in the executive departments for decades. The Department considers this section as a landmark in progress toward a uniform basis for accounting and reporting for appropriated funds. After some initial delay in preparing and securing the approval of the accounting officers for our regulations under this statute, we are now in the process of applying it worldwide to all activities of the Department of Defense. As I am sure you will understand, corrective measures of this scope when applied to the complexities of accounting for and reporting on the obligations and expenditures of in excess of \$30 billion cannot succeed overnight. We have been working diligently since the enactment of the statute and believe that within the next year or two the educative process and our job in this area will be completed. Our problem in carrying out the provisions proposed by H. R. 9593 arises from the fact that there are very large adjustments of unliquidated obligations in the Department of Defense after the end of the fiscal year. For instance, adjustments which may arise from the maturing of contingent liabilities arising out of all types of contracts including variation in quantity clauses price redetermination and escalation clauses as well as in the incentive and cost-reimbursement-type contracts. In addition, other significant factors require adjustments in our obligations which are often based on the best estimates available, in accordance with regulations issued under section 1311 approved by the General Accounting Office.

We have generally resolved most of these problems by the utilization of no-year appropriations in the Department of Defense but, to the extent that the problems exist in annual appropriations, to which this bill is largely applicable, we recommend that serious consideration be given to clarifying the provisions of the bill with respect to the limitations on the amounts to be carried over and the manner in which these adjustments are to be effected in the Department of Defense appropriations after the close of the fiscal year and prior to the transfers contemplated to be made on September 30. We, therefore, recommend that the bill be amended as follows:

At page 2, line 6, change the period to a colon and add the following:

"Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate accounts established pursuant to this act: Provided further, That the head of the agency concerned shall make such report

with respect to each such restoration as the Director of the Bureau of the Budget may require."

If this bill is so amended, the Department of Defense would interpose no objection to its enactment. We have been advised by the Bureau of the Budget that there is no objection to the presentation of this report.

Sincerely yours,

RICHARD A. BUDDEKE,
Director, Legislative Programs.

Mr. McCORMACK. Also a statement from Congressman Hiestand, the author of H. R. 7688.

Is Mr. Keller here?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. Is Mr. Hiestand here?

Mr. HIESTAND. Yes, sir.

Mr. McCORMACK. Wait a minute. You are going to read this statement, are you?

Mr. HIESTAND. Well, it is very brief. It might serve as a basis for a few remarks if you wish them.

Mr. McCORMACK. Always glad to hear from you.

STATEMENT OF HON. EDGAR W. HIESTAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. HIESTAND. The statement is brief as it can be. The bill, H. R. 7688, is also brief and rather simplified. It would enable valid claims, in cases where appropriations have lapsed, but where the matter is purely routine and involves no question of law or fact, to be settled within the agency of the Government directly involved, rather than through the General Accounting Office.

The agencies would be required to set aside sufficient unexpended balances of closed appropriations for settling claims and the entire procedure would be subject to revision and audit by the General Accounting Office.

The rest of the statement is self-explanatory, Mr. Chairman. There are plenty of exceptions to the old law, section 305 of the Budget and Accounting Act of 1921, as enumerated here. Approximately 28,000 such claims would not have involved anything doubtful or complex, and could have been thus settled, and would have involved a saving.

The statement is self-explanatory. I do not think we need to go into much more detail unless the committee would like to ask questions about it.

Under section 305 of the Budget and Accounting Act of 1921, it is provided—

All claims and demands whatever by the Government of the United States or against it shall be settled and adjusted in the General Accounting Office.

There are presently many exceptions, such as the Internal Revenue Service for income-tax matters; the Railroad Retirement Board for pension claims; the Social Security Administration for old-age and survivors insurance claims, and the Veterans' Administration for benefit payments.

Otherwise, claims made against an executive agency are reviewed by the agency and then submitted to the General Accounting Office for settlement. Where the claim relates to an open appropriation it is approved by the General Accounting Office, returned to the execu-

tive agency for payment. Request for payment, under lapsed appropriations, are currently designated as claims and, hence, are referred to the General Accounting Office. Such claims are, if approved by the General Accounting Office, recorded in the records of that Office. They are then referred to the Treasury Department for payment from the "payment of certified claims" account.

Of the 38,000 claims received by the General Accounting Office relating to lapsed appropriations, approximately 28,000 did not involve any doubtful or complex matter.

The existing procedure seems an unnecessary duplication of work. Substantial economies could be achieved if the agencies were authorized to make direct settlements of claims without their prior submission to the General Accounting Office, except in those cases involving questions of law or fact.

Proper accounting procedure should be set up so that set-asides of unexpended appropriations for this purpose are properly safeguarded and that the funds appropriated by the Congress are used solely for the purpose intended.

Your careful consideration of this bill is requested.

Mr. McCORMACK. Any questions, Mr. Jonas?

Mr. JONAS. Yes. I would like to ask Mr. Hiestand about this proviso on page 2, beginning on line 5;

Provided, That executive departments and agencies in question shall retain so much of the unexpended balances,

and so forth. Do you visualize any trouble estimating the amounts that they should retain for that purpose, or would that be easily determined?

Mr. HIESTAND. It is not anticipated they would have much, if any, difficulty because their experience in previous years would indicate the amounts in round numbers to be set aside.

But it is provided that it be set aside for that purpose and for that purpose only, and an accounting must be rendered as stated in the bill to the General Accounting Office at the end of the year.

If old claims come up, they should be handled in the regular way. In other words, if it is insufficient.

Mr. JONAS. You simply propose that the agency or department of Government in question should within its own organization make these settlements without going through the General Accounting Office.

Mr. HIESTAND. Without going through the General Accounting Office in advance and then back to the Treasury. Make the settlement under supervision and auditing authority of the General Accounting Office and render a full account of them, but there are plenty of such claims being so settled in other departments. These are claims that have been authorized but simply have not been settled; the details have not been quite completed, and so forth.

Mr. JONAS. The General Accounting Office would still have to audit these claims?

Mr. HIESTAND. Certainly.

Mr. JONAS. It would be a postaudit?

Mr. HIESTAND. Certainly, as they do all of the other agency accounts; a postaudit.

Mr. JONAS. Are there any advantages under this bill other than expedition of settlement?

Mr. HIESTAND. And the saving of expense of a prior audit and then back to the agency and then over to the Treasury. It just saves duplication of handling.

Mr. McCORMACK. Claims of the sort you have in mind now are settled at the Treasury level, Department of the Treasury, following audit and approval by the General Accounting Office?

Mr. HIESTAND. Presently, now. And of course each agency, that is to say the General Accounting Office and the agency and the Treasury all have to review and weigh each one on its validity and its proper payment and so forth.

The Treasury, of course, requires the agency to O. K. them, study them, check and doublecheck them anyway. They do it at present. They send it over to the General Accounting Office, who do it, then it comes back to the agency, who reviews it, and then it goes to the Treasury.

It cuts out one extra handling, saving the money and the time.

Mr. JONAS. It would cut out handling at the Treasury?

Mr. HIESTAND. Yes.

Mr. JONAS. The Treasury Department.

Mr. McCORMACK. What are the nature of the claims?

Mr. HIESTAND. Well, they are primarily claims in all agencies which are for appropriations made, purchases of all kinds, and claims for an adjustment on a purchase where the whole appropriation has been made and it is rather a routine. It does not affect any question of fact or of law. It is routine claims.

Mr. McCORMACK. What are the amounts involved? Would they be all kinds of amounts?

Mr. HIESTAND. All kinds of amounts.

Mr. McCORMACK. Millions of dollars in some cases?

Mr. HIESTAND. No; they are very minor amounts. I doubt if any of them are over several thousand dollars. Most of them are very minor in amount, but it just clogs up the whole machinery; 28,000 of them in 1 year.

Mr. McCORMACK. How is it that they can be confined to claims not exceeding several thousand dollars and not go into higher amounts?

Mr. HIESTAND. It has not been found necessary to put that in. There is another bill in, the chairman's bill, I believe, which has quite a little added——

Mr. JONAS. May I ask a question, sort of in elaboration of the one the chairman asked?

Mr. HIESTAND. Yes.

Mr. JONAS. Would it be because the creditors with large claims press their claims faster than some of the small ones? Would that have anything to do with it?

Mr. HIESTAND. Well, I suppose that could have something to do with it.

Mr. JONAS. I would think most people with claims against the Government would be rather careful to try to have them cleared out before the appropriation lapses.

Mr. HIESTAND. They try to, Mr. Jonas, but you and I know that we have in our very vast bureaus a slowness of operation in spite of the best that we can do. We do have a slowness of operation, put in by law, section 305, for instance, that has been in for a good many years and it just definitely slows down the operation. It was put in to safeguard the taxpayers' money.

Of course, with that impulse we are all in accord. It is felt, however, that this simplified handling would adequately protect the Government.

Mr. McCORMACK. Some years ago, we took and wiped away the preaudit on rates charged the Government on railroads. Some uncomfortable situations developed later on. That is before your time.

Mr. HIESTAND. Yes.

Mr. McCORMACK. Mr. Keller is well acquainted with the history of that experience.

Mr. Keller, when you testify, that is the one important thing you will have to address yourself to, to my mind, to differentiate between the two cases.

Mr. JONAS. Do we have a full copy of section 305? You have quoted only parts of it.

Mr. HIESTAND. No; I intended to bring that. I imagine the committee staff will have that available because that is the section that requires amending.

Mr. McCORMACK. Any further questions?

(No response.)

Mr. McCORMACK. Thank you very much, Congressman Hiestand.

Mr. HIESTAND. Thank you.

Mr. McCORMACK. All right, Mr. Keller.

We are very glad to hear from you.

Mr. KELLER. Mr. Chairman, I have with me Mr. Steve M. Brown, from our Accounting System Division, and Mr. John Moore, from our General Counsel's Office.

I have a short statement, Mr. Chairman, on H. R. 9593.

Mr. JONAS. Pardon me, Mr. Chairman.

We have not heard any proponent of the Dawson bill yet. Do you want him to discuss this?

Mr. McCORMACK. Yes; we are discussing all the bills.

Mr. KELLER. Perhaps I can clarify that, Mr. Jonas. We suggested a substitute for H. R. 7658 and H. R. 7688. H. R. 9593 incorporates the substitute draft.

Mr. McCORMACK. What is that?

Mr. KELLER. H. R. 9593 is a substitute for Mr. Hiestand's bill and for the bill introduced by Mrs. Church.

Mr. JONAS. You say you suggested a modification of the Hiestand bill and your suggestion is incorporated in the Dawson bill?

Mr. KELLER. Yes, sir. The Dawson bill represents a joint approach by the Treasury Department, by the Bureau of the Budget, and by the General Accounting Office.

STATEMENT OF ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL

Mr. KELLER. Mr. Chairman and members of the subcommittee, we appreciate the opportunity to appear before you to discuss H. R. 9593 which, if enacted, will bring about substantial accounting improvements in the Government and will greatly simplify and facilitate the payment of amounts due to creditors of the Government which are chargeable to lapsed appropriations.

The Hoover Commission, in its report on budget and accounting, made two recommendations in the particular area covered by H. R. 9593. These are:

Recommendation No. 17:

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations.

Recommendation No. 18:

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office but should be settled within the agencies.

H. R. 9593 will substantially carry out the objectives of recommendations Nos. 17 and 18, the only essential difference being that obligated balances for prior years would be consolidated in separate accounts, rather than brought forward to the current appropriation accounts of the agencies.

Mr. JONES. May I ask a question at that point, Mr. Chairman?

Mr. McCORMACK. Yes.

Mr. JONES. Will you give us some examples of the types of claims that would be presented under the provisions of this act?

Mr. KELLER. Yes, sir. They involve almost any type of payment made by the Government. Under the present law an appropriation is made for a fiscal year, say 1956. I am talking about an annual appropriation. That appropriation is available for obligation purposes until June 30, 1956, and is available for expenditure purposes based on those obligations for 2 full fiscal years thereafter, or until June 30, 1958.

After that period any charge against that appropriation must come to the General Accounting Office and be certified for payment. It is then paid from the certified claims fund, which is presently established under the Treasury Department.

Now, in answer to your specific question, a claim could be arrears of pay due a soldier, it could be a claim under a contract, which had been a long time in being performed with the result that final payment had not been made.

Mr. McCORMACK. What had not been paid?

Mr. KELLER. The final payment or the final charges had not been paid.

Mr. McCORMACK. What amounts could be involved in such a payment, such claims?

Mr. KELLER. Well, they could run anywhere, Mr. Chairman, from \$2 on up. As a rule the amounts are small. The total of all certified claims that are paid run about \$150 million a year at present.

Mr. McCORMACK. How many claims would that involve?

Mr. KELLER. We estimate that those which involve no question of law or fact—and we have run a test in the last few months—run about 40 to 50,000 cases a year. The great majority are very small amounts.

Mr. McCORMACK. Well, in practical experience without regard to the—of course, it could go to any amount, but practical experience, the departments have experience. What would be the maximum amount, the probable maximum?

Mr. KELLER. Well, I have seen them as high as half a million dollars, some may be more.

Mr. McCORMACK. That is very rare?

Mr. KELLER. I think it is very rare.

Now, here is what you run up against in the way these payments are processed at the present time: Let us take our half-a-million-dollar claim, and we get up to June 30 of the final year when the department can pay it without referring it to the General Accounting Office. If there is no question of law or fact involved——

Mr. McCORMACK. That is within the fiscal year?

Mr. KELLER. Yes, sir. The department can pay on June 30, because it is within the fiscal year and 2 years thereafter.

Mr. McCORMACK. Is that 3 years?

Mr. KELLER. In effect, 3 years.

Mr. McCORMACK. Now, we are at the end of the third-year period that you have in mind, the fiscal year and the 2 succeeding years.

Mr. KELLER. Right.

Mr. McCORMACK. All right.

Mr. KELLER. If we get up to June 30, the department can pay up to June 30.

Mr. McCORMACK. In other words, for the record, an appropriation for the fiscal year 1957, starting July 1 next, during that fiscal year, if it is obligated on or before June 30, 1958, then there would be the 2-year carryover in order to—the 2-year period in which to make the payments in accordance with any contract made without referral to the General Accounting Office, is that right?

Mr. KELLER. That is correct, sir.

Mr. McCORMACK. All right.

Now, we come to 1958–59, we come to July 1, 1960.

Mr. KELLER. I want to stop at June 30, first, just for a minute if I may.

Mr. McCORMACK. All right.

Mr. KELLER. On June 30, everything having been processed, the bill can be paid by the Department, assuming there are no complications—no questions of law or fact. Twenty-four hours more and it has to be referred to the General Accounting Office. In other words, we run into the July 1 date.

We have no hesitancy whatsoever in recommending the change contemplated by the bill because based on our experience, we have found that the great majority of these cases have no question of law or fact involved. We are going through a mechanical operation. But there is a safeguard in the provisions of H. R. 9593 to the extent that the procedure will be carried out under regulations prescribed by the Comptroller General.

In other words, if we run into a situation where things are going wrong and particular types of cases are not being paid properly, then by regulation we can require those cases to come into the General Accounting Office for settlement.

Mr. McCORMACK. So you are not giving up anything you do not want to give up?

Mr. KELLER. No, sir; we are not. In fact, we would like to get rid of those cases.

Mr. McCORMACK. I wonder why one department is willing to give up some of the powers possessed, that is rather unusual. But in all frankness, you are not giving it up, you can recall it by regulation any time you want to.

Mr. KELLER. That is right.

Mr. McCORMACK. All right. I see.

Mr. KELLER. I want to mention again that based on our own experience, we have no hesitancy in saying there is really no complication in the type of case we are talking about.

Mr. McCORMACK. Do you have any questions at this point?

Mr. JONAS. Did you finish?

Mr. JONES. Yes.

Mr. JONAS. I would like to ask a question that the chairman asked Mr. Hiestand: Why do you have so many claims that run beyond 2 years in settlement before being settled?

Mr. KELLER. Well, I think the answer breaks down two ways, Mr. Jonas—claims of individuals and claims of contractors.

Let us take individuals—a civilian employee of the Government or a man in the military service. We have some 2 million plus civilian employees, and I do not know the exact total of military personnel. Each one of those people has a right anytime he thinks he has been underpaid to file a claim.

Mr. JONES. What is the statute of limitations for filing that claim?

Mr. KELLER. Ten years, sir.

Mr. JONAS. Off the record.

(Discussion off the record.)

Mr. JONES. In other words, it would take care of the claims, say, the statute of limitations of 10 years, and he files it in 6 years, it would not be budgeted for that 3-year period that you have just discussed to handle that claim?

Mr. KELLER. No, sir; not specifically.

Mr. JONES. That would also apply——

Mr. KELLER. Unless an obligation was set up.

Mr. JONES. Now, the Bureau of Compensation claims, you have a 5-year statute of limitations. The claim is filed on the fourth year, he is adjudicated to be—the claim, say, an amount of \$4,000, for an injury of \$4,000 accumulative pay, would you handle it under this procedure?

Mr. KELLER. No, sir. It so happens that those claims are paid directly by the Bureau of Employees Compensation. They do not come to General Accounting Office. We do not have jurisdiction over them.

Mr. JONES. Why is it then the Comptroller General has ruled on those claims, that they were established after the statutory period had expired?

Mr. KELLER. I was not aware that we had ruled on them.

Mr. JONES. I believe you have somewhere along the line, because—well, go ahead.

Mr. JONAS. I can see some distinction between claims for compensation. I mean, they are not based on contracts, and when the final authority rules with the claimant, why obviously the claim has to be paid. I cannot understand why we should have many contract claims that would run for 2 years before settlement.

Mr. KELLER. For the most part, Mr. Jonas, they would be long-term contracts. We might enter into a contract this year which is chargeable against the present fiscal year appropriation. The contract could run 2 or 3 years before being completed.

Mr. JONAS. But would not the money have been obligated during the first year? That would take care of that kind of situation, would it not?

Mr. KELLER. That is right.

Mr. JONAS. But I mean——

Mr. KELLER. But we would still, under our present procedure—if we go past the June 30 date 2 years hence—have to send that claim to the General Accounting Office. There would be no question of the money not being available, but a question of processing.

Mr. McCORMACK. Do you have any statement as to the amount of money that would be saved through clerical hire, unnecessary duplication, administrative action?

Mr. KELLER. I can speak only for the General Accounting Office. I think there would be some savings in the other agencies. But we estimate in the General Accounting Office it would save us approximately \$600,000 per year.

It will take about 18 months to fully implement the procedures, but I have no hesitancy in saying that the way it is going to turn out——

Mr. McCORMACK. Well, all of the departments have conferred on this bill, have they not?

Mr. KELLER. Yes, sir. We have had numerous conferences on the bill.

Mr. McCORMACK. Are there any areas of difference?

Mr. KELLER. Not that I am aware of at this point, Mr. Chairman.

There are a number of amendments which have been offered by the Budget Bureau. Also, an amendment has been offered by Defense. We have all agreed on the amendments.

I would like to point out one thing further. The bill provides a mechanism for settling claims, but in addition it will also accomplish another objective.

Our annual appropriations, as we were just discussing, are for the year for which made, but stay on the books for 2 fiscal years thereafter.

What this bill provides is that within 3 months after June 30 of the first year, an agency will make a determination as to the amount of those funds that are obligated and unpaid.

The obligated balances will be transferred and consolidated in an account with all prior year obligated balances. The money that is not obligated will be written off and, in effect, will revert back to the Treasury. In other words, you would only carry forward in your accounts the obligated balances instead of, as at the present time, carrying the full amount of the obligated and unobligated balances.

I can perhaps make that clearer by an example:

An agency gets an appropriation for \$1 million for a fiscal year. Let us say during that year they make obligations and they pay out a half million dollars.

Mr. McCORMACK. Obligate the full amount or obligate a half million, which?

Mr. KELLER. Well, let us say they obligate \$750,000. By June 30, let us say, they have paid out under those obligations \$500,000.

Now, we get down to the point where at June 30 we would total up the amount of obligations that we had not paid which would be \$250,000. That amount would be set aside to pay those obligations. The excess of \$250,000 which had not been spent or obligated would be written off.

Mr. McCORMACK. Is that provided for under this bill?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. In other words to simplify—I will not say you have to simplify it, but a million dollars appropriated for the next fiscal year, for a particular item, \$750,000 obligated, \$500,000 paid, carrying out the obligation or contracts, then \$250,000 would be held in reserve in accordance with this bill and the other \$250,000 would come back into the Treasury?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. What happens now with that \$250,000.

Mr. KELLER. The \$250,000 is carried on the books for 2 more years, then it goes into the certified claims fund, which is a consolidation of all appropriation balances of that kind; and then we are supposed to go through once a year; we examine the certified claims fund and make an estimate as to how much we do not need and write the excess off.

Mr. McCORMACK. Would that tend to have an agency, a department, speed up the obligations before the end of the fiscal year?

Mr. KELLER. I do not think it would, Mr. Chairman. I do not see any reason why it would make any difference whatsoever in that respect.

Mr. JONAS. I was just going to ask whether there is anything in this bill to stop the unusual obligations of funds in the month of June.

Mr. KELLER. I am afraid not.

Mr. JONAS. That is a sore subject with a lot of people.

Mr. McCORMACK. Well, that was the thought in my mind, sort of philosophical state of mind. But his answer could have brought it quickly into activity.

(Laughter.)

Mr. McCORMACK. He lulls me to sleep.

(Laughter.)

Mr. McCORMACK. Any further questions at this time?

Do you want to read the rest of your statement?

Mr. KELLER. It is up to you, Mr. Chairman.

Mr. McCORMACK. Without objection, Mr. Keller's statement will be inserted in the record.

Mr. KELLER (continuing his statement). H. R. 9593 authorizes the agencies of the Government to pay undisputed bills chargeable to lapsed appropriations in precisely the same manner as bills payable from currently available appropriations. This objective will be accomplished by repealing existing requirements that all obligations chargeable to lapsed appropriations shall be certified by the General Accounting Office in advance of payment by permitting agencies to retain obligated balances of appropriations made to them; and by granting, under regulations to be prescribed by the Comptroller General, authority to the agencies to pay prior year obligations from the retained balances through regular disbursing channels.

In the event H. R. 9593 is enacted, it is estimated that from 40,000 to 50,000 cases a year which under present law are required to be processed by the General Accounting Office can be paid directly by the agencies. As a result, claims adjudicators and supporting personnel of the General Accounting Office now engaged in such work will be available for assignment to more productive work. Paperwork and time lags will be substantially reduced. In addition, the General

Accounting Office will be able to discontinue the maintenance of approximately 35,000 detailed ledgers of accounts pertaining to lapsed appropriations.

The bill will not affect the responsibility of the General Accounting Office to adjudicate claims involving doubtful questions of law or fact. Such claims will continue to be sent to the General Accounting Office for settlement.

In addition, the proposed legislation will reduce the carryover of unexpended balances in appropriations. At present, the entire balance of each annual appropriation is carried in the account of the agency for 2 years after the appropriation is no longer available for obligation purposes.

Under the provisions of H. R. 9593, the obligated balance of an appropriation will be transferred to an appropriation account consisting of the obligated balances of all prior appropriations granted for the same general purpose. The unobligated balance will revert to the general fund of the Treasury. These transfers will be based on reports of obligated balances which all agencies are now required to make under the provisions of section 1311 of the Supplemental Appropriation Act, 1955.

It is recognized that it is not always possible to report obligated balances of appropriations with precise accuracy, due to occurrences which may come about after the reporting date. Amounts ultimately required for liquidation of obligations may fluctuate. However, the agencies will be able to utilize the savings resulting from excess obligations to offset amounts underobligated.

This feature, together with the authorization in section 3 of the bill, to use currently available appropriations when necessary to meet obligations against prior years' appropriations, should afford sufficient latitude to the agencies to effect payments to creditors without undue delay. However, Department of Defense has expressed concern that they might not be able to take care of creditors in some cases and will offer an amendment authorizing adjustments to be made when necessary.

This amendment has been discussed with us and we have no objection to the amendment being favorably considered by the committee.

An additional benefit will be afforded by the bill. At present, liquidations of outstanding obligations against lapsed appropriations are budgeted and recorded as expenditures of the Treasury Department rather than of the agencies who received the goods and services.

This procedure overstates the expenditures of the Treasury and understates the expenditures of the agencies which incurred the obligations by several hundred millions of dollars each year. Under H. R. 9593 such expenditures will be recorded and reported as expenditures of the individual agencies who received the goods or services.

It is understood that the Bureau of the Budget has suggested amendments to H. R. 9593. These amendments are for the most part technical. They have been discussed with us and we concur with the Bureau in recommending their favorable consideration.

We fully endorse the provisions of H. R. 9593, together with the amendments offered by the Bureau of the Budget and the Department of Defense and urge favorable consideration of the legislation by the Congress.

Mr. McCORMACK. Mr. Jones, any further questions?

Mr. JONES. No.

Mr. McCORMACK. Mr. Jonas—

Mr. JONAS. I had one. I suppose you covered it on page 2. You estimate that this might result in a saving of \$600,000 per year. Is that because of the lack of—the difference between the degree of care with which you have to handle these claims on a prepayment basis and your postaudit of the claims?

Mr. KELLER. That would be the case. We do not anticipate any substantial additional work insofar as our auditing is concerned. The payments can be checked pretty closely by examining the procedures of the agencies. At present, each one of those forty to fifty thousand cases has to be individually jacketed, assigned to an examiner, assigned to a reviewer, and processed all the way through.

Mr. JONAS. And you do not visualize that you would have that much procedure to follow?

Mr. KELLER. No, sir.

I will say that our \$600,000 estimate is based on the reduction in our claims work.

I will agree that perhaps some additional audit work will be required. I have no way of estimating just how much, but I have no hesitancy in saying it will not come anywhere close to the \$600,000.

Mr. JONAS. You would not have to maintain an individual detailed ledger as you now do for each one of these claims?

Mr. KELLER. We have some 35,000 appropriation accounts, old ones, we are maintaining which we would be very happy to get rid of and which we could get rid of under this bill.

Mr. McCORMACK. Would you go over this bill, section by section, and just briefly explain each section and also any suggested amendments that have been agreed upon with the General Accounting Office and the departments interested think should be made?

Mr. JONAS. Mr. Chairman, while he is getting ready to begin that, is the Church bill practically the same as the Hiestand bill?

Mr. HENDERSON. Identical.

Mr. JONAS. All right.

Mr. KELLER. Mr. Chairman, section 1—I think maybe I had better proceed through the bill and then discuss the amendments.

Mr. McCORMACK. Any way you would like that would expedite it.

Mr. KELLER. Under subsection (a) of section 1 it is provided that each appropriation available for obligation for a definite period of time shall, after the expiration of its obligation availability, be disposed of in two ways:

First, the obligated balance will be transferred to an appropriation account consisting of the obligated balances of all appropriations granted for the same general purpose.

The unobligated balance will be withdrawn—

Mr. JONES. Let me ask you a question at that point.

How can an agency anticipate its fiscal requirements on claims that they don't know will arise?

Mr. KELLER. First, I would like to mention that the Congress, in enacting the Supplemental Appropriation Act, 1955, included a new section dealing with obligations. Section 1311 provides that each agency of the Federal Government shall, within 90 days, following the close of the fiscal year, make a report to the Bureau of the Budget,

to the General Accounting Office, and to the appropriation committees, as to obligated balances of appropriations as of June 30.

Section 1311 lays out specific rules for determining obligations.

I will agree with you that it will not be possible to determine with complete preciseness each and every obligation. I think there would be very little problem in most cases because you know what money you have obligated and what you expect to spend. Others might be more difficult.

However, when we get to the point of consolidating the individual transactions, we believe that you are going to have an excess obligation under one item and an underobligation under another, with the result that the two will balance themselves off. But in the event they do not, provision is made in the bill that the Agency can use their current appropriation to make up any difference, or under an amendment which has been suggested by the Department of Defense and agreed to by the General Accounting Office and the Bureau of the Budget—if an agency gets into a situation where they have made a serious underestimate of obligations, it could draw back some of the money that had been previously written off, enough to take care of their obligations. I don't think we will have any real problem with it.

Mr. JONES. That is all.

Mr. JONAS. Mr. Chairman.

Mr. McCORMACK. Yes.

Mr. JONAS. You are saying under the first method suggested here that the obligated balances within an agency shall all be consolidated and transferred to what you would call—

Mr. KELLER. They will be consolidated with other obligated balances and under appropriations for the same general purpose. I think perhaps a good example is: "Salaries and Expenses, General Accounting Office." If this bill is enacted, as of September 30 of this year we will consolidate our obligated balances for the fiscal years 1954, 1955, and 1956 into one account. That money can only be used for payment of obligations actually incurred during those 3 fiscal years.

In other words, you cannot shift the balances over to something else.

Mr. JONAS. You would make the same consolidation with respect to purchases—well, not purchases but any other main—

Mr. KELLER. We would follow the general appropriation structure of the agency.

Mr. JONAS. And have a consolidation within each heading.

Mr. KELLER. Yes, sir. But you would cut your old accounts down from two to one.

Mr. JONAS. It wouldn't simplify it still further to consolidate under one heading?

Mr. KELLER. That is the one point where we differ slightly from the Hoover Commission recommendation. The Hoover Commission recommendation seems to contemplate, the way we read it, that you would take your obligated balances for 1 year and carry them forward into the current appropriation. Now, we have a reservation on that because it could put an agency in the position of carrying forward an obligated balance into the new fiscal year, then deobligate, if something came up, such as a cancellation of a contract. Then the amount deobligated possibly could be used by the agency during the current year. This in effect would supplement or increase the appropriation made by Congress for that agency for the current year.

Mr. McCORMACK. All right, Mr. Keller.

Mr. KELLER. I have covered subsection 1 (a).

Subsection (b) contemplates that annual appropriations for 1956 and subsequent years will be disposed of not later than September 30 of each year, in the manner outlined in subsection (a).

Mr. McCORMACK. Is there any amendment to (a) (1)?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. What is that amendment?

Mr. KELLER. Do you want me to discuss the amendments at this time?

Mr. McCORMACK. Yes. I think you ought to.

Mr. KELLER. The first amendment is on page 1, line 3. The words, "except as otherwise provided by law", should be deleted.

Mr. McCORMACK. Why?

Mr. KELLER. As a substitute for that, Mr. Chairman, we suggest a new section (f) under section 7 on page 7, reading as follows:

Any provisions, (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this section shall not be effective June 30, 1957.

The idea is, Mr. Chairman, that in a few cases there is written into permanent law provisions making appropriations available for expenditure for periods in excess of 1 year. The amendment would repeal those laws but it would not be applicable until June 30, 1957. After that longer periods of expenditure availability would have to be provided in appropriation acts.

The agencies and the Budget Bureau will have ample opportunity to consider individual cases because, as I stated, the section is not effective until June 30, 1957.

Mr. McCORMACK. That is to give you sort of a 2-year breathing spell, too, to get it into operation?

Mr. KELLER. Yes, sir. It is really 1 year. Exceptions would have to be considered next year.

Mr. McCORMACK. A 1-year breathing spell?

Mr. KELLER. Yes.

Mr. McCORMACK. You said something about 18 months awhile ago.

Mr. KELLER. We think it will be 18 months before the claims situation is worked down to where the agencies are handling most of them, and we can get out of the business.

Mr. McCORMACK. All right.

Mr. KELLER. Line 8, change the word "activity" to "agency or subdivision thereof".

Mr. Chairman, the word "activity" has many meanings, and some concern was expressed that you might get down to the particular forest station out in a national park. It is intended that the consolidated appropriation accounts are to be set up at the level of an agency or a major subdivision of an agency.

Mr. JONAS. You don't say major subdivision? You just say agency or subdivision. Wouldn't that get down pretty low?

Mr. KELLER. We didn't believe so, sir, and we have done a lot of talking about this. In fact, I was amazed at how much talking we had to do before arriving at some agreement.

Mr. McCORMACK. Would an agency include a subdivision?

Mr. KELLER. I think it does.

Mr. McCORMACK. Coming back to GAO, you would have control by regulation, wouldn't that—

Mr. KELLER. I don't think there would be any problem in working it out. I think we would have to approach it jointly with the agencies and with the Bureau of the Budget.

Mr. McCORMACK. If you have had a lot of discussions about it, I wouldn't raise some questions. But it seems the greater always includes the lesser. I was taught that.

Mr. KELLER. I would like to add this: That we are finally in agreement, on those particular words. [Laughter.]

Mr. McCORMACK. All right.

Let me ask you: Where did the difficulty in agreement come from?

Mr. KELLER. I think, Mr. Chairman, that we all have our ideas.

Mr. McCORMACK. What position did GAO take? What was the position of the GAO on that?

Mr. KELLER. I think we started out with "agency."

Mr. McCORMACK. Who was it that wanted the subdivision?

Mr. KELLER. I think we had it down to an organizational unit at one point. I do not recall who suggested "subdivision."

Mr. McCORMACK. All right. I won't comment. It seems when you say a subdivision, that ought to give them a certain degree of autonomy. It might separate them from the head of the agency.

Mr. KELLER. I don't believe so, Mr. Chairman. Mr. Brown, who worked on this bill, gives as an example the Treasury Department. We would consider the Bureau of Internal Revenue and the Bureau of Public Debt as subdivisions of the agency.

On page 2, line 6—

Mr. McCORMACK. Let me ask you, now, with the members here, if the bill is acted upon, is there any objection to that amendment?

Mr. JONAS. I think it improves the bill to cut out activity. I don't know about agency or subdivision.

Mr. McCORMACK. If they want it, why, all right.

Mr. JONAS. It suits me.

Mr. McCORMACK. In the old days a hundred years ago that might be the subject of a week's discussion in the House on the constitutional aspects.

[Laughter.]

Mr. KELLER. The next amendment is on page 2, line 6, change the period to a colon, and add the following—this amendment was suggested by the Department of Defense.

Mr. McCORMACK. Do you have a copy of it?

Mr. KELLER. I understand it has been furnished to the committee.

Mr. JONAS. That would be on page 2 of the Defense Department letter.

Mr. KELLER. Page 2, line 6, you change the period to a colon and add the following:

Provided, That, when it is determined necessary by the head of the agency concerned, that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate accounts established pursuant to this Act; provided further, that the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Budget may require.

The Department of Defense raised considerable question on the point covered by this amendment. They are still doing some major procurement from annual appropriations, for the most part in the Navy. They feel they could possibly run into situations where an occurrence under a contract came about after June 30, such as a price escalation or price redetermination, and they might be put in the position of not being able to pay the contractor.

Mr. JONES. Why wouldn't that apply to the Department of the Army and any other armed service activity?

Mr. KELLER. I think it could apply, and the amendment is so worded to take care of any agency. But, the major procurement in the other military departments, is from no-year appropriations, which this bill does not affect.

Mr. JONES. It doesn't do what?

Mr. KELLER. This bill does not affect no-year appropriations. In other words, major procurement items such as for construction, research and development, are for the most part financed from no year appropriations.

Mr. JONES. Then you wouldn't need your amendment, would you?

Mr. KELLER. Well, Defense feels that they do need it. I personally think it will be used very rarely if at all.

Mr. McCORMACK. Wouldn't it tend to vitiate the very purpose of the act?

Mr. KELLER. Not if it is used properly.

Mr. JONES. It seems it would.

Mr. McCORMACK. Now, I know—it just seems to me as though that amendment there has some vitiating effects upon the rest of the bill, upon the purpose of the bill.

Mr. JONES. You are relieving them of doing the same thing you are trying to accomplish in the bill, it seems.

Mr. KELLER. There would have to be a showing that they actually need it, to restore balances to take care of obligations.

Mr. JONES. It seems, Mr. Chairman, you are trying to seek an objective in your bill and then you give an exemption from the objective?

Mr. McCORMACK. What is the position of the GAO on it?

Mr. KELLER. Our position is this, Mr. Chairman: As a practical matter, I think that the over-obligations and the under-obligations are going to so balance off and that this provision will rarely be used.

I am also in this position—I cannot prove it.

Mr. McCORMACK. But suppose the Defense got it in, that wouldn't hurt my Donable Property Act, would it?

Mr. LANMAN. No, sir.

Mr. McCORMACK. Well, we have had experience on stretched interpretation, also on SAGE——

[Laughter.]

Mr. KELLER. Well, Defense has a fear on this and I think perhaps Mr. Lanman, when he testifies, could express their position better than I can. They are afraid they might get caught short somewhere along the line.

Mr. McCORMACK. I notice they say here with respect to such restoration as the Director of the Budget may require.

Mr. KELLER. Yes, sir.

Mr. McCORMACK. Do you think, with all due respect to the Bureau of the Budget, doesn't that give the Bureau of the Budget to extend

over into the Defense Department, have a powerful voice in the operation of this bill as far as the Defense is concerned?

Mr. KELLER. It gives them, of course, the right to ask for a report on any of these restorations, but I think the Bureau of the Budget is supposed to maintain a certain amount of control over the expenditures of all the departments.

Mr. JONES. Do you want to qualify that word "certain"?

Mr. McCORMACK. This is a financial matter involving money. I agree with my friend, Mr. Jones, and qualifying the word "certain," but with that out, why, I see the logic.

Mr. BROWN. May I interrupt long enough to request that I be excused because of the fact I have another meeting which I left to come here? I came here specifically to give Mr. Jonas my proxy.

Mr. McCORMACK. I was going to ask you to do that, give it to Mr. Jonas or to me.

Mr. BROWN. All right. My proxy is on the bill and the amendments thereto, because we have an interest in this bill. If there is any question, I will let you vote on the proxy too. [Laughter.]

Mr. McCORMACK. Thank you, Mr. Brown.

Well, now, on this amendment, any further questions?

Mr. JONAS. This is not a question, Mr. Chairman, but I must confess I have the same feeling that you expressed about it when I first read it, it seemed to me that it pretty well does away with what we are trying to do here in 2 (a). I would be glad to hear the Defense Department witness when he is called, on that point.

Mr. McCORMACK. This isn't a fancy affair. Come in. We like to connect up these things as we go along.

Mr. LANMAN. What I have to say is—

Mr. McCORMACK. What is your full name?

Mr. LANMAN. M. H. Lanman, Jr.

Mr. McCORMACK. Mr. Keller, are you willing to yield?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. So we will have the record clear. You are not losing the floor.

What is your full name?

Mr. LANMAN. Maurice H. Lanman, Jr., Assistant General Counsel, Department of Defense, fiscal matters.

First, Mr. McNeil asked me to apologize for his absence.

Mr. McCORMACK. You don't have to, we understand.

STATEMENT OF MAURICE H. LANMAN, JR., ASSISTANT GENERAL COUNSEL, DEPARTMENT OF DEFENSE, FISCAL MATTERS

Mr. LANMAN. In order to put in perspective our position with respect to this particular amendment, we would like to point out that the enactment of section 1311 of the Supplemental Appropriation Act, 1955, which Mr. Keller referred to earlier, was for the first time a statutory definition of obligations which we believe was long overdue, and was necessary to correct erroneous as well as unsound practices with respect to recording and reporting obligations that had been going on in the executive branch for decades.

The Department of Defense considers that this section was a landmark in progress toward the uniform basis for accounting and for reporting for appropriated funds.

I am sure you understand that corrective measures of this scope, when applied to the complexities of our operation, accounting and reporting on the obligations and expenditures in excess of \$30 billion, takes time.

We have been working diligently since the enactment of the statute and believe that within the next year or two the educative process and our job in this area will be completed.

Our problems in carrying out the provisions proposed in H. R. 9593, that is, if enacted without this amendment, would arise from the fact that there are very large adjustments of unliquidated obligations in the Department of Defense, after the end of the fiscal year. For instance, adjustments that arise from the maturing of contingent liabilities, arising out of all types of contracts, including variation in quantity clauses, price redetermination, and escalation clauses, as well as in the incentive and cost-reimbursement-type contracts.

In addition there are other significant factors that require adjustments in our obligations which are often based on the best estimates available, in accordance with regulations issued under section 1311 approved by the General Accounting Office.

Now, we generally resolve most of these problems by the utilization of what is called the no-year appropriation in the Department of Defense, that is, an appropriation without fiscal year limitation. But to the extent that the problems exist in annual appropriations, to which this bill is largely applicable, we recommend that serious consideration be given to clarifying the provisions of the bill with this amendment so as to obviate the limitation on the amount to be carried over and the manner in which adjustments are to be effected in the Department of Defense appropriations after the close of the fiscal year.

Mr. McCORMACK. Any questions, Mr. Jones?

Mr. JONES. How much time would it require the Department of Defense to obtain appropriated funds to make—to liquidate these contingent liabilities?

Mr. LANMAN. In the first place, we would have procured an appropriation estimated to be adequate to cover it. If we submit a second request for funds, we would have to go through the budget cycle a second time. Actually, the money has already been appropriated, and is in the Department for the purposes of liquidating these obligations which were entered into during the fiscal year. We would feel that even from a congressional standpoint, an additional budget estimate and budget cycle to cover programs which had already been justified and financed, would be of little value.

Mr. JONES. The largest money items will be from the Department of Defense; would they not?

Mr. LANMAN. Yes, sir.

Mr. JONES. So those large items would necessarily, don't you think, or would feel that congressional examination of those should be made?

Mr. LANMAN. If it is recalled that what we are doing is liquidating obligations incurred for programs already justified to the Congress—

Mr. JONES. I understand that.

Mr. LANMAN. We do not believe, and I am sure the other agencies, including the General Accounting Office, agree that there is no suggestion of relaxation of congressional control here.

Mr. JONES. Have you experienced any difficulty in getting additional appropriation items for those types of accounts that you just discussed?

Mr. LANMAN. Under normal circumstances we do not come back to the Congress for additional appropriations for items such as this unless the account is actually in a deficiency status. With the enactment of this bill, that is exactly our fear. If all that has been transferred into the account for liquidation of the obligations is that amount capable of having been certified on the 30th of June, then we would be in a deficiency status. It is anticipated, that we would be required from time to time to make contractors wait for their money, to make the soldier and civilian await the congressional action on an appropriation which had already once been made for the purpose.

Mr. McCORMACK. This was really an escape clause from the purpose of the original bill, designed, as you say it has been, to be approved by the Bureau of the Budget. The result is to enable some flexibility, is that right, without the necessity of reappropriation?

Mr. LANMAN. That is correct, sir.

Mr. McCORMACK. Is that a substantially correct statement?

Mr. LANMAN. Could I clarify that just one moment, sir?

Mr. McCORMACK. Beg pardon.

Mr. LANMAN. The amendment as submitted does not require prior approval of the Bureau of the Budget. It does require that we report to them.

Mr. McCORMACK. Yes, report.

Mr. LANMAN. That is right.

Mr. JONES. That is subsequent approval.

Mr. LANMAN. Well, it is assumed, sir, that if we were abusing the action, they could direct us to——

Mr. JONES. That is not exactly correct. As I read this last proviso, it says, "As the Director of the Bureau of the Budget may require." He might require prior justification, might he not?

Mr. LANMAN. Well, sir, I don't believe the language was intended to convey that thought. It says—"The agency shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require."

Mr. JONES. It says it shall if the Bureau of the Budget requires it; the Bureau of the Budget may require.

Mr. LANMAN. That is correct.

Mr. JONES. Then you shall report if he requires it.

Mr. LANMAN. That is right.

Mr. McCORMACK. Under this, couldn't the Budget Bureau require you to report before the payment is made, for approval?

Mr. LANMAN. The language, itself, of course, is broad enough to permit them to require us to report in advance. But I am sure that is not what was intended by the amendment, nor does the Budget nor the General Accounting Office understand it that way.

Mr. McCORMACK. Of course, I think the language is pretty plain. Where the language is ambiguous, that is one thing.

Mr. JONES. I think you are correct on this, Mr. Chairman, because you see they throw in these words: "each such restoration". That would imply that it has already been restored.

Mr. JONES. That is right. It is just a subsequent report.

Mr. KELLER. I don't think there is any doubt, Mr. Chairman. In my discussions with the Budget Bureau, they did not contemplate advance approval.

Mr. McCORMACK. They did not contemplate what?

Mr. KELLER. Advance approval.

Mr. McCORMACK. Well, you gentlemen know what the negotiations were, the talks; so, any further questions on this particular amendment?

Mr. LANMAN. May I make an additional statement?

Mr. McCORMACK. Certainly.

Mr. LANMAN. We agree with all the other technical amendments to the bill which have been submitted by the Bureau of the Budget which Mr. Keller is discussing. We did not say so in our letter, but that is our position.

Mr. McCORMACK. Any further questions?

Mr. JONAS. One other, please, sir.

What volume of accounts do you think would be involved that you couldn't take care of with the no-year appropriation language?

Mr. LANMAN. Well, sir, that is a difficult question because we don't know. As I say, the enactment of 1311 has, shall we say, put religion into the Department of Defense and many of the other agencies with respect to the recording and reporting of obligations, and we are busily engaged in seeing to it that those rules are rigidly adhered to. However, that is taking time, and to the extent that we are unable to apply those rules rigidly, we do need room to adjust.

Now, with respect to the long lead-time items, which we referred to here, which are purchased under varying forms of contract, we find that some appropriations are budgeted for the purposes of buying some long lead-time items. I am not able to give you any dollar estimate or any indication as to the volume of this. We can point out that some definition of the words "long lead time" might be of interest here, and that is that an electronic spare part, for instance, might not be considered what is called a major item or a major long lead-time item, taking 2 or 3 years, but it might take as much as 15 to 18 or 20 months to make.

Mr. JONAS. But wouldn't it be covered with the no-year limitation?

Mr. LANMAN. No, sir; not all of them, sir. It is a question of the budget structure, which we are also working on, to get it rearranged to the point where the no-year appropriation will largely resolve our fiscal year limitation problems. But we have not got that completed, sir.

Mr. JONAS. Well, if the no-year appropriation language did cover all of your lead-time procurement, and we were dealing only with procurement outside of that field, there would be no more reason for this—for you to need this amendment in the Defense Department than in any other department of the Government, would there?

Mr. LANMAN. That is correct, sir.

Mr. JONAS. I mean, if the other departments can live under it, the Defense Department perhaps should.

Mr. LANMAN. Well, to the extent that they had items that were 15 to 18 months delayed in delivery after ordering, had price escalation or cost-reimbursement type provisions in them, they would have the same problem we did, irrespective of whether it was a major item taking 3 to 4 years.

Mr. McCORMACK. Suppose this amendment was not agreed to by the committee, what would be the position of the Department of Defense on the bill?

If you are not in a position, just simply tell me that you are not in a position, and I will respect your view now. If that is—I never intentionally submit any witness to—I would submit the head of an agency, but I have a profound respect for your position.

Mr. LANMAN. Thank you, sir.

Mr. McCORMACK. I don't want you to answer a question that later might result in some embarrassment.

Mr. LANMAN. Our basic position on this proposal was that we are completely in accord with the suggestion that the certified claims be handled within the agencies, and we think that the other aspect of the bill is a very large step in the direction of Hoover Commission recommendation No. 17, with which we are in hearty accord. We felt that we wanted to cooperate, and we wanted to be able to join with the other agencies in making this proposal work. And we feel that we would find it to some extent unworkable unless the amendment were adopted.

Mr. McCORMACK. Now, on the question of determination, it says that when it is determined necessary by the head of the agency concerned, that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments. When can that determination be made? It must necessarily be after the fiscal year.

Mr. LANMAN. That is correct, sir.

Mr. McCORMACK. And goes into the 2-year period, is that right?

Mr. LANMAN. That is right.

Mr. McCORMACK. Mr. Keller told us that the unobligated amounts come back into the Treasury.

Mr. KELLER. That is right.

Mr. McCORMACK. This enables a grip to be held on the unobligated amounts, projecting into the 2-year period.

Mr. LANMAN. That is right, sir.

Now, I wouldn't want to get too complicated, sir, but perhaps I could put an example on the table.

We have an Army—let's say an Army finance officer who pays the bills. He has files on all the contracts, and when the 30th of June comes around he knows and the contracting officer knows that they can't obligate any more of the money. But the contractor is still driving up with the truck delivery, and will continue to do so as long as there remains any undelivered portion of the contract, and the finance officer has got to pay the bill, and he has to pay the bill as stated by the contract.

Now, that contract may be recorded as an obligation for \$1 million, the money being available to the contracting officer in that amount, and he has got it on his books, and he continues to administer it. This is of no particular concern to the echelons above him, of the Department; business is going on as usual; the contractor is getting paid. If, however, that contract had a price-escalation clause in it, protecting the contractor so that he could get paid for increased labor costs, and so forth, then the obligation under the contract may increase sometime after the 30th of June to cover that provision. The finance officer will need the money to pay the contract.

Now, there may be other money within that appropriation over all defense establishments, but with contracting officers needing it to

meet bills with. So that if it is a substantial sum of money and not readily available by withdrawal from other finance officers, then we would ask for a restoration of some of this balance.

Mr. McCORMACK. You wouldn't ask for restoration, you would make a restoration according to what you said?

Mr. LANMAN. That is right.

Mr. McCORMACK. Then you would notify the Bureau of the Budget afterwards.

Mr. LANMAN. Yes.

Mr. McCORMACK. In other words, there is nothing they could do. It is just simply a report.

Mr. LANMAN. That is correct.

Mr. McCORMACK. What about notifying the Director of the Budget before you make the restoration?

Mr. LANMAN. Well, if that would serve a purpose of the Bureau of the Budget—I don't believe we would have any objection, although they indicated that under such an arrangement as this, it would serve no useful purpose for them to examine or attempt to approve on a case-by-case basis, since it is largely a question of administration of funds within the Department of Defense.

I would like to point out, too, if I may, that at the end of the fiscal year within which this occurs, the bill provides that anything that is left over goes back into the Treasury again. So that we don't gain anything, and all we want is to cover the possibility that we don't have the money in the till to pay a bill or to adjust an obligation upward.

Mr. McCORMACK. You just said it goes back into the Treasury, but then a little while ago you said that this amendment will enable, within the 2-year period, a restoration. So it doesn't go back into the Treasury immediately.

Mr. LANMAN. It would have reverted to the Treasury, sir, and we would have to go—

Mr. JONAS. He means it doesn't restore it, because they spend it.

Mr. McCORMACK. I know. But restoration could be within the 2-year period after the end of the fiscal year.

Mr. LANMAN. The restoration might take place at any time that the situation which I just described arose.

Mr. McCORMACK. They wouldn't need it during the fiscal year, the restoration, would you?

Mr. LANMAN. Not during the fiscal year of obligations, that is right.

Mr. McCORMACK. Yes.

Mr. LANMAN. There is one thing that we have to tie to—the fact that this appropriation was initially made by the Congress for the purpose for which we are spending it.

Mr. McCORMACK. Yes. But this bill here doesn't concern any money appropriated and obligated in the fiscal year.

Mr. LANMAN. No, sir.

Mr. McCORMACK. It concerns the money appropriated for, say, a specific purpose and unobligated.

Mr. LANMAN. That is correct, sir.

Mr. McCORMACK. And this amendment here will enable the agency to still have control over unobligated appropriated money.

Mr. LANMAN. Only for the purpose of meeting obligations which were properly adjusted upward after the close of the fiscal year, that is the only reason.

Mr. McCORMACK. Well, all right. I get it.

In other words, this is a staggering step forward, in my opinion.

[Laughter.]

Mr. LANMAN. Mr. Chairman, as I say, we now have an executive branch position, so we will refrain from further comment.

Mr. JONAS. Couldn't the language be changed to tie more closely to the situations you have described? I mean where obligations have already been made, when it is determined that they were not sufficient due to contingencies that come up later to liquidate the account? Now, I can see where they might not—we probably shouldn't expect them to have to go back through the entire budget process and back through Congress for more money. But I don't know that this amendment restricts it to that sort of situation.

Mr. LANMAN. We believe it does, sir.

Mr. JONAS. How do you?

Mr. LANMAN. When a portion of the remaining balance is withdrawn required to liquidate obligations and effect adjustments.

Mr. JONAS. Liquidate obligations made during the fiscal year?

Mr. LANMAN. It would not have been an obligation within the definition of 1311 unless it had been, sir.

Mr. JONAS. You don't think the further descriptive language is necessary, then?

Mr. LANMAN. We are attempting, sir, to so enhance the value of 1311 that we would like that word "obligation" to mean only what 1311 says it means.

Mr. HENDERSON. Mr. Lanman, would this provision enable the Department of Defense to do anything that it can't do already under existing law?

Mr. LANMAN. Under existing law we have complete control of the account until the expiration of the 2-year period now provided in the Certified Claims Act, and can do anything necessary to liquidate an obligation which was valid or turned out to be valid as of the close of the fiscal year in which the appropriation was available for obligation. We can do this now.

Mr. HENDERSON. In other words, you can restore, make a restoration of this kind after the 2-year period has lapsed?

Mr. LANMAN. No. The money is completely under our control until the end of the 2-year period. After that date then we must submit to the General Accounting Office, under the pro forma claims settlements, procedures mentioned earlier today. Now, I would like to point out that one time—I believe it was in our Appropriation Act of 1955, when there were substantial amounts of outstanding unpaid obligations from annual appropriations of all of the services—some of the balances were remaining in old annual accounts which were used before Congress gave us the authority for no-year money in most of the long-lead time items. Congress authorized us to settle these amounts without regard to the certified claims procedures. One of the principal reasons for this was to permit the contractors to be paid in a timely fashion and to relieve the General Accounting Office of the burden of selling substantial amounts of claims.

Mr. HENDERSON. Thank you.

Mr. JONAS. Why do you add "and effect adjustments" if it is required only to liquidate obligations? Isn't that surplusage?

Mr. LANMAN. Sir, without getting too complicated with operations, in the military pay accounts, just for an instance, we must operate those on what are called open allotments. This is all authorized and provided for both under law and regulation, it is understood clearly. It may be that a finance officer paid the troops. He must pay them. And it suddenly turned out that he didn't actually have enough money in the allotment to do it. Now, they have been paid. The expenditure has been made. But we would ask for the restoration for the purposes of adjusting the accounts, and we should in such a case as this.

Mr. McCORMACK. Is there any general objection, in a sort of informal way, to the adoption of this amendment?

Mr. JONES. I would be opposed to it, Mr. Chairman, on the grounds if the provisions of this amendment prevail I see no reason for the bill. It gives them all the rights to utilize the unliquidated funds, and so—the testimony as given by Mr. Keller—I see we accomplish very little by this type of legislation.

Mr. LANHAM. May I make one more comment?

Mr. McCORMACK. Yes, sir.

Mr. LANHAM. We would not have any more money available to us than we do now.

Mr. JONES. That is not the question. The question is the use of the money. In the amendment it is the use of the money for the additional time period which you already do not have. You say the unobligated balances could be used during the 2-year fiscal period after the appropriation year.

Mr. LANHAM. Only for the purpose of doing what is now being done, that is liquidating obligations incurred only during the fiscal year for which the money was available for obligation, only for that purpose, and to settle the claims, sir, which might arise and about which we do not know.

Mr. JONES. That is right. That is the whole point.

Mr. LANHAM. But under no circumstances would there be any more money available to the agency. It is simply that the certified claims procedure which is now in effect and which the General Accounting Office and the Bureau of the Budget and all of us indicate is no more than a pro forma examination of these claims, is all that is intended to be dispensed with here.

Mr. JONES. Eliminated. As far as the Department of Defense is concerned you would eliminate the scrutiny that is made now by the General Accounting Office on those types of claims?

Mr. LANMAN. I think their witnesses testified, sir, that there is largely a pro forma scrutiny on their part and results in a little more than a duplication.

Mr. JONES. If that is all it is, we can have a very simple amendment to exempt all agencies from that pro forma type of operation.

Mr. JONAS. Mr. Chairman, if you are through, Bob——

Mr. JONES. Yes.

Mr. JONAS. I do not go quite as far as Mr. Jones. I do not believe this amendment completely destroys the effect of the bill. I think it weakens it considerably but, even with the amendment in it, I think there is a lot to be said for the bill. While I would rather have not

seen the amendment in there, I think this explanation somewhat satisfies me that they might need the amendment.

Mr. McCORMACK. Mr. Keller, do you place the General Accounting Office in favor of this amendment?

Mr. KELLER. Our opinion is that we think that there are going to be cases where obligations have not been estimated. In other words you may have understated the obligation. But at the same time you are going to have other cases involved in the same appropriation where you have overstated the obligation. The result, I think, will be that the two will come pretty close to balancing.

Mr. JONES. Let me ask you a question. You are talking about all the agencies involved; are you not?

Mr. KELLER. The accounts break down by individual agencies and by appropriations. We might take "Pay of the Army," for example. You are going to have overobligations in that account and you are going to have underobligations. I think there is a good chance it will balance itself off. But until you get into actual operation you cannot prove it will balance itself off.

Mr. McCORMACK. Do you favor the amendment or not?

Mr. KELLER. I favor it on this basis: I do not think it will be used, but if by chance it has to be used——

Mr. McCORMACK. Suppose it is used?

Mr. JONES. Off the record.

(Discussion off the record.)

Mr. KELLER. We have approved the amendment, Mr. Chairman.

Mr. LANMAN. May I make one more observation?

Mr. McCORMACK. Surely.

Mr. LANMAN. I think we would fairly say that ultimately the account would balance. We think this is possible. But we do not know, and neither does the General Accounting Office, nor does the Bureau of the Budget, and the Defense Department has the additional problem of administering the account and paying the bills without interruption.

Mr. McCORMACK. Of course, you people want to get rid of going to the—before the act—to the General Accounting Office on these claims.

Mr. LANMAN. Mr. Chairman, as far as we are concerned, we are doing all the work now anyway.

Mr. KELLER. Not all of it. [Laughter.]

Mr. LANMAN. Well, everything except the pro forma settlement. We develop the claim, we state the amount due, we provide all the papers, we submit it to the GAO and they put a certificate on the top of it; they send it back to us and our disbursing officer pays it.

Now, as far as we are concerned, we think it is good for the Government to save money by disposing of unnecessary activity, and we think that is a good recommendation. However, we have no particular desire or urgent wish to take over the business.

Mr. HENDERSON. Mr. Lanman, suppose this provision was not included in the bill and a situation arose that you fear, what would be your remedy in that case?

Mr. LANMAN. The first thing we would have to do, sir, is make a worldwide examination of everybody's allotment—that is, anybody who was holding any of the money in that account from that appropriation—to see whether or not there was enough in there to pay the bill.

If there was not enough money left in the appropriation account to pay the bill, we would come to the Congress for a deficiency appropriation. In the meantime, the contractor would be waiting.

Mr. JONES. What do you do now?

Mr. LANMAN. What do we do now?

Mr. JONES. Yes.

Mr. LANMAN. For 2 years after the appropriation expires for obligations, we have full control of the money with respect to liquidating valid obligations that existed on the 30th of June and settling claims that arose.

Mr. JONES. You make this worldwide tour then to determine it; do you?

Mr. LANMAN. As far as we are concerned, sir, the original allotment which the finance officer had is adequate for the program, should be adequate for the program that he has. But to the extent that there are unforeseeable contingencies—

Mr. JONES. Without the amendment proposed here, would you not have greater latitude than you have at the present time?

Mr. LANMAN. Without the amendment?

Mr. JONES. Yes, sir.

Mr. LANMAN. No, sir.

Mr. JONES. Is this not true: We are taking 2 years away from you in the bill, unless the amendment is on; are we not?

Mr. LANMAN. You mean without this legislation at all we have more flexibility now? If that is what you meant, the answer is "Yes."

Mr. JONES. All right; how do you have greater flexibility?

Mr. LANMAN. For 2 years the money is under the control of the department concerned for the liquidation of obligations validly incurred prior to the expiration of the fiscal year.

Mr. JONES. The bill as written at the present time—would you not have the same latitude?

Mr. LANMAN. No, sir. The bill as written would take the unobligated balance as of the end of the first year and put it back in the Treasury and we would not have a dime, except that we had obligated.

Mr. JONES. Mr. Chairman, that is a little bit different than I understood the situation.

Mr. JONES. That is the way I understand it. Is that the way you understand it?

Mr. KELLER. Yes.

Mr. McCORMACK. Suppose you put in there—

Provided further, That prior thereto the head of the agency concerned shall make a report with respect to each such restoration as the Director of the Budget may require.

Mr. LANMAN. I believe we would have no objection to that.

Mr. McCORMACK. Does that meet your objection? I think that would strengthen the amendment and probably meet your—I can see where you have to have some flexibility. I can see that. And any questions I asked were for the purpose of developing facts, not indicating any state of mind on my part.

Mr. LANMAN. Right.

Mr. McCORMACK. But just to develop facts. But I can also see going up the hill and down the hill again; that is what it is like. I can see where there would be a situation arise and you get into more or less of a straitjacket, but there would be no difficulty in taking those matters up with the Bureau of the Budget first, would there?

Mr. LANMAN. It has been——

Mr. McCORMACK. I am not asking you to bind the Defense Department.

Mr. LANMAN. It has been the Bureau of the Budget's thought that if they knew about it after the fact and for the purposes of detecting whether there was any abuse of the provision or not, that would be adequate for their purpose.

I do not believe we would have any substantial objection to reporting to them ahead of time. I do not know whether the mechanics requiring a report would occasion any serious administrative difficulty or not. But I would assume they would not.

Mr. JONAS. You would be bringing a second government agency or control group into the picture, which might have a tendency to——

Mr. JONES. Why bring the budget in at all if you are going to leave them the latitude they want under existing law?

Mr. LANMAN. I think we would feel as long as it was a report which would not require prior approval—as we envision the possibility of the thing occurring at all—it would be under circumstances where we would certainly want to expedite the action in order to pay the bills.

Mr. McCORMACK. Would something along that line meet with some of your objections?

Mr. JONES. That is all right. Going to the budget, as far as I am concerned, going to the budget at all should not be a requirement. Just exempt them from the operation of the act.

Mr. McCORMACK. What is the next amendment, Mr. Keller? I have to leave you shortly.

Mrs. HARDEN. Mr. Chairman, I regret it was impossible for me to be present for the entire hearing. The Post Office and Civil Service Committee, of which I am a member, is sitting at the same time.

Mr. McCORMACK. I got the note.

What is the next amendment?

Mr. KELLER. The next amendment, Mr. Chairman, is on page 2 lines 23 and 24. Take the words "as of the close of the fiscal year," and place them after the word "account" on line 21.

Mr. McCORMACK. Now, is there any general objection to that?

Mr. KELLER. That is a technical amendment.

Mr. McCORMACK. All right. What is the next one?

Mr. KELLER. The next amendment is on page 3, lines 11 and 12, change the word "required" to read "made" and after "subsection (a)," insert "and (b)." "Subsection" should be made plural. That is also a technical amendment.

Mr. McCORMACK. No objection to that, it is agreed to.

What is the next amendment?

Mr. KELLER. The next amendment is on page 4, lines 8 and 9. Delete the words "activity responsible for the liquidation of the obligations chargeable to such accounts." That is through the end of line 9. And insert the words "agency concerned."

Mr. McCORMACK. What about the subdivision?

Mr. KELLER. I do not think we need the subdivision in this case. This is a requirement that the agency make a review of the accounts.

Mr. McCORMACK. All right.

Any objection to generally approving that amendment?

(No response.)

Mr. McCORMACK. All right.

Mr. KELLER. On page 4, line 14, change the word "shall" to "may." That is to tie in with the provision we were just discussing with the Department of Defense. This section as written requires that a deficiency in the obligated balance must be paid out of the current appropriation. The amendment makes it permissive rather than mandatory.

Mr. McCORMACK. That relates back to the amendment we are a little uncertain about?

Mr. KELLER. That is right.

Mr. McCORMACK. If that is agreed upon generally, we will accept that.

All right?

(No response.)

Mr. McCORMACK. What is the next one?

Mr. KELLER. Page 6, line 10. Change the word "activity" to "agency or subdivision thereof." That ties back with the amendment in the first section.

Mr. McCORMACK. Without objection, that will be generally agreed to.

What is the next one?

Mr. KELLER. Page 6, line 17. Strike the words "or will not be undertaken or continued." The reason for that amendment is—

Mr. McCORMACK. Would you not put a semicolon after "fulfilled"?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. Semicolon after "fulfilled."

Mr. KELLER. Yes, sir.

Mr. McCORMACK. All right.

Mr. KELLER. The reason for the amendment is that the original language puts the head of the agency in the position of making the determination that a particular program authorized by Congress will not be undertaken or continued.

Mr. McCORMACK. Any objections generally to agreeing to that amendment?

What is the next one?

Mr. KELLER. The next one is a new subsection "(f)" in section 7.

Do you want me to repeat that again, sir? We went over that earlier.

Mr. McCORMACK. Yes.

Mr. KELLER. The new subsection (f) reads: "Any provisions"—and we are talking about repealing provisions of law—"except those contained in appropriation acts for fiscal year 1956 and 1957, permitting an appropriation to remain available for expenditure for any period beyond that which it is available for obligations, but this subsection shall not be effective until June 30, 1957."

Mr. McCORMACK. Any objections to generally agreeing to that amendment?

(No response.)

Mr. McCORMACK. All right.

Any other amendment?

Mr. KELLER. A new section 9, which is an authorizing section. It reads, "The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operations of the provisions of this act and fixing the period for which such appropriation

or appropriations shall remain available for expenditure is hereby authorized."

The section may avoid a point of order being raised against an appropriation act, provision which would allow an appropriation to remain available for expenditure longer than it is available for obligation.

Mr. JONES. The appropriation committee would have that authority whether this amendment was added or not?

Mr. KELLER. Yes; but a point of order might be raised.

Mr. McCORMACK. Would that not raise a question of a point of order involving an appropriation? When you go into that, you are liable to have—under the rules of the House, you are liable to have a point of order directed against the bill.

Mr. JONES. This would eliminate it.

Mr. KELLER. It would eliminate the point of order against the appropriation act. I think it would be proper for inclusion in this bill.

Mr. JONES. As I understand it—

Mr. McCORMACK. I see, I get it. I see.

All right. Is there any objection generally to that proposed amendment?

(No response.)

Mr. McCORMACK. Let me ask you, Mr. Keller: The General Accounting Office recommends this bill with these amendments?

Mr. KELLER. Yes, sir.

Mr. McCORMACK. We are having sort of an informal situation here because I would like to get this disposed of. I have to go to the floor. There is no objection, then, to the language being put in the amendment that has been quite extensively discussed, providing that prior to the restoration it shall go the Bureau of the Budget?

Mr. LANMAN. Report; yes, sir.

Mr. McCORMACK. Report; yes, sir.

Would that meet your objection? I will not say meet your objection—it does not meet my objection, but I go along with it. Would you go along with it?

Mr. JONES. I guess I could go along.

Mr. McCORMACK. How do the other members feel about the bill?

(No response.)

Mr. McCORMACK. All right.

I will entertain a motion to report the bill favorably with all amendments to the full committee.

Mr. JONES. I make such a motion.

Mrs. HARDEN. Seconded.

Mr. McCORMACK. All right.

Question on the motion?

The ayes have it.

The other witnesses may put their statements in the record, if they desire.

Mr. JONAS. Do we have any witnesses opposing the bill?

Mr. McCORMACK. Anybody here opposing the bill?

(No response.)

Mr. McCORMACK. Any other witnesses with prepared statements, we will be very glad to have them put into the record.

**STATEMENT OF GILBERT L. CAKE, ASSOCIATE COMMISSIONER,
BUREAU OF ACCOUNTS, TREASURY DEPARTMENT**

Mr. CAKE. Mr. Chairman and members of the committee, I am glad to testify on behalf of the Treasury Department concerning H. R. 9593, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill contemplates two major changes with respect to the manner in which claims would be paid and accounted for after the related appropriations have ceased, by limitation of law, to be available any longer for making contracts or otherwise financially obligating the Government.

Under the present law, the General Accounting Office reviews and settles claims against lapsed appropriations and, in that connection, is keeping more than 30,000 accounts for old balances as a means of insuring that no claim is paid that would create a deficiency involving a lapsed appropriation.

First, however, the administrative agencies concerned do the work of ascertaining the facts and documenting the claims, including recommendations thereon, to be reviewed and settled in the General Accounting Office.

Under the bill, this work by the administrative agencies would still have to be done but the claims, except those involving doubtful questions of law or fact, would be certified as correct for payment by authorized disbursing officers without first being referred to the General Accounting Office for approval. Of course, such administrative action would be subject to independent, postaudit review by the General Accounting Office.

Also under present law, Federal agencies generally must keep 3 separate accounts with respect to each appropriation title; namely, 1 account for the appropriation for the current fiscal year and 1 each for the expired appropriations for the 2 preceding years.

This is true of appropriations limited to a year or other period of time; which, disregarding trust funds, are the great majority.

After an appropriation has remained on the books of the Government for 2 fiscal years following that for which the appropriation is made, the entire balance, including the unobligated portion, lapses and is carried to a consolidated account for the payment of claims against all lapsed appropriations.

As I previously mentioned, these claims, usually referred to as certified claims, are being submitted under present law to the General Accounting Office for approval before payment.

Under the bill, one-third of the appropriation accounts, and one-third of the innumerable allotment or other subaccounts related to such appropriation accounts, which are scattered among the different agencies of the Government, would be eliminated. Also, the more than 30,000 accounts kept by the General Accounting Office with respect to lapsed appropriations would be discontinued. Only 2, instead of 3 accounts, would be kept with respect to each appropriation title; namely, 1 for the appropriation for the current fiscal year and the other for the purpose of liquidating claims involving old obligations against all appropriations for the same general purpose. This would be accomplished each fiscal year by making, in the case of each appropriation title, a careful administrative review of the obliga-

tions outstanding against the appropriation account for the fiscal year just ended and then closing such account, within 90 days, by writing off the unused (that is, unobligated) part of the balance and transferring the remainder (that is, the obligated portion) to an account for the liquidation of old obligations. As I have indicated, there would be one such account maintained for appropriations which were made for the same general purpose, and the account would be used for the liquidation of old obligations against such appropriations regardless of when the obligations were incurred in past years.

I have tried to give a general idea of the proposed changes in present practice without dealing with all of the procedural details.

The Treasury Department has been collaborating with the Bureau of the Budget and the General Accounting Office in the drafting of the proposed legislation. With the amendments which the Bureau of the Budget proposes, the Treasury Department gives its full support to the enactment of H. R. 9593. This is because there are strong advantages to be gained in the way of—

1. Reducing the expense of paying and accounting for claims against expired appropriations;

2. Strengthening related audit;

3. Improving accounting in two ways: by reducing the size of the carryover of unexpended balances as between fiscal years; and by treating payments of claims in the Federal Budget as expenditures of the administrative agencies concerned rather than as expenditures of the Treasury Department; and

4. Expediting the payment of valid claims.

Mr. McCORMACK. The hearing is adjourned subject to the call of the chairman.

(Whereupon, at 12 o'clock p. m., the subcommittee adjourned, to reconvene at the call of the chairman.)

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LEGISLATIVE HISTORY

Public Law 798
H. R. 9593

TABLE OF CONTENTS

Index and summary of H. R. 9593.	1
Digest of Public Law 798	2

INDEX AND SUMMARY OF H. R. 9593

Feb. 28, 1956 Rep. Dawson, Ill., introduced H.R. 9593 which was referred to the House Committee on Government Operations. Print of bill as introduced.

Mar. 5, 1956 Sen. Kennedy (for himself, Sens. Humphrey, Thurmond, and Cotton) introduced and discussed S. 3362 which was referred to the Senate Committee on Government Operations. Print of bill.

Mar. 27, 1956 House subcommittee ordered H. R. 9593 reported.

Apr. 18, 1956 House committee ordered H. R. 9593 reported.

Apr. 19, 1956 House committee reported H. R. 9593 with an amendment. House Report No. 2015. Print of bill and report.

May 7, 1956 House passed over H.R. 9593 on request of Rep. Whitten.

May 21, 1956 House passed over H. R. 9593 on request of Rep. Aspinall.

June 5, 1956 House passed H.R. 9593 with amendment.

June 6, 1956 H.R. 9593 was referred to Senate Committee on Government Operations. Print of bill as referred.

June 7, 1956 Senate committee ordered S. 3362 reported.

June 19, 1956 Senate committee reported S. 3362 with amendments. Senate Report No. 2266. Print of bill and report.

June 20, 1956 Senate passed H.R. 9593 with amendments, inserting the language of S. 3362. S. 3362 was indefinitely postponed due to passage of H. R. 9593.

June 29, 1956 House conferees were appointed on H. R. 9593.

July 11, 1956 Senate conferees were appointed on H. R. 9593.

July 13, 1956 Conferees agreed to file conference report.

July 16, 1956 House received conference report. House Report No. 2726. Print of report.

July 17, 1956 Senate received and agreed to conference report.

July 20, 1956 House agreed to conference report.

July 25, 1956 Approved; Public Law 798, 84th Cong.

DIGEST OF PUBLIC LAW 798

PAYMENT OF OBLIGATIONS. Provides for the merging of all prior-year obligated balances into one consolidated account for the same general purposes within each agency. Authorizes the agencies to pay those bills on which there is no dispute but for which the appropriations have lapsed and make them chargeable to the lapsed appropriations in the same manner as bills payable from currently available appropriations.

84TH CONGRESS
2^D SESSION

H. R. 9593

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 28, 1956

Mr. DAWSON of Illinois introduced the following bill; which was referred to the
Committee on Government Operations

A BILL

To simplify accounting, facilitate the payment of obligations,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That, except as otherwise provided by law, (a) the account
4 for each appropriation available for obligation for a definite
5 period of time shall, upon the expiration of such period, be
6 closed as follows:

7 (1) The obligated balance shall be transferred to an
8 appropriation account of the activity responsible for the
9 liquidation of the obligations, in which account shall be
10 merged the amounts so transferred from all appropriation
11 accounts for the same general purposes; and

1 (2) The remaining balance shall be withdrawn and, if
2 the appropriation was derived in whole or in part from the
3 general fund, shall revert to such fund, but if the appropria-
4 tion was derived solely from a special or trust fund, shall
5 revert, unless otherwise provided by law, to the fund from
6 which derived.

7 (b) The transfers and withdrawals required by subsec-
8 tion (a) of this section shall be made—

9 (1) not later than September 30 of the fiscal year
10 immediately following the fiscal year in which the period
11 of availability for obligation expires, in the case of an
12 appropriation available both for obligation and dis-
13bursement on or after the date of approval of this Act;
14 or

15 (2) not later than September 30 of the fiscal year
16 immediately following the fiscal year in which this Act
17 is approved, in the case of an appropriation which, on
18 the date of approval of this Act, is available only for
19 disbursement.

20 (c) For the purposes of this Act, the obligated balance
21 of an appropriation account shall be the amount of unliqui-
22 dated obligations applicable to such appropriation less the
23 amount collectible as repayments to the appropriation as of
24 the close of the fiscal year as reported pursuant to section
25 1311 (b) of the Supplemental Appropriation Act, 1955 (68

1 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized
2 to be credited to an appropriation but not received until
3 after the close of the fiscal year in which such appropria-
4 tion expires for obligation shall, unless otherwise authorized
5 by law, be credited to the appropriation account into which
6 the obligated balance has been or will be transferred, pur-
7 suant to subsection (a) (1), except that collections made by
8 the General Accounting Office for other Government agen-
9 cies may be deposited into the Treasury as miscellaneous
10 receipts.

11 (d) The transfers and withdrawals required pursuant
12 to subsection (a) of this section shall be accounted for and
13 reported as of the fiscal year in which the appropriations
14 concerned expire for obligation, except that such transfers
15 of appropriations described in subsection (b) (2) of this
16 section shall be accounted for and reported as of the fiscal
17 year in which this Act is approved.

18 SEC. 2. Each appropriation account established pursuant
19 to this Act shall be accounted for as one fund and shall be
20 available without fiscal year limitation for payment of obli-
21 gations chargeable against any of the appropriations from
22 which such account was derived. Subject to regulations
23 to be prescribed by the Comptroller General of the United
24 States, payment of such obligations may be made without
25 prior action by the General Accounting Office, but nothing

1 contained in this Act shall be construed to relieve the Comp-
2 troller General of the United States of his duty to render
3 decisions upon requests made pursuant to law or to abridge
4 the existing authority of the General Accounting Office to
5 settle and adjust claims, demands, and accounts.

6 SEC. 3. (a) Appropriation accounts established pur-
7 suant to this Act shall be reviewed periodically, but at least
8 once each fiscal year, by each activity responsible for the
9 liquidation of the obligations chargeable to such accounts.
10 If the undisbursed balance in any account exceeds the ob-
11 ligated balance pertaining thereto, the amount of the excess
12 shall be withdrawn in the manner provided by section
13 1 (a) (2) of this Act; but if the obligated balance exceeds
14 the undisbursed balance, the amount of the excess shall
15 be transferred to such account from the appropriation cur-
16 rently available for the same general purposes. A review
17 shall be made as of the close of each fiscal year and the
18 transfers or withdrawals required by this section accom-
19 plished not later than September 30 of the following fiscal
20 year, but the transactions shall be accounted for and re-
21 ported as of the close of the fiscal year to which such review
22 pertains. A review made as of any other date for which
23 transfers or withdrawals are accomplished after September
24 30 in any fiscal year shall be accounted for and reported
25 as transactions of the fiscal year in which accomplished.

1 (b) Whenever a payment chargeable to an appropria-
2 tion account established pursuant to this Act would exceed
3 the undisbursed balance of such account, the amount of the
4 deficiency may be transferred to such account from the
5 appropriation currently available for the same general pur-
6 poses. Where such deficiency is caused by the failure to
7 collect repayments to appropriations merged with the appro-
8 priation account established pursuant to this Act, the amount
9 of the deficiency may be returned to such current appro-
10 priation if the repayments are subsequently collected during
11 the same fiscal year.

12 (c) In connection with his audit responsibilities, the
13 Comptroller General of the United States shall report to the
14 head of the agency concerned, to the Secretary of the Treas-
15 ury, and to the Director of the Bureau of the Budget, respect-
16 ing operations under this Act, including an appraisal of the
17 unliquidated obligations under the appropriation accounts
18 established by this Act. Within thirty days after receipt
19 of such report, the agency concerned shall accomplish any
20 actions required by subsection (a) of this section which such
21 report shows to be necessary.

22 SEC. 4. During the fiscal year following the fiscal year
23 in which this Act becomes effective, and under rules and
24 regulations to be prescribed by the Comptroller General
25 of the United States, the undisbursed balance of the appro-

1 priation account for payment of certified claims established
2 pursuant to section 2 of the Act of July 6, 1949 (63 Stat.
3 407; 31 U. S. C. 712b), shall be closed in the manner pro-
4 vided in section 1 (a) of this Act.

5 SEC. 5. The obligated balances of appropriations made
6 available for obligation for definite periods of time under dis-
7 continued appropriation heads may be merged in the appro-
8 priation accounts provided for by section 1 hereof, or in one
9 or more other accounts to be established pursuant to this
10 Act for discontinued appropriations of the activity currently
11 responsible for the liquidation of the obligations.

12 SEC. 6. The unobligated balances of appropriations which
13 are not limited to a definite period of time shall be withdrawn
14 in the manner provided in section 1 (a) (2) of this Act
15 whenever the head of the agency concerned shall determine
16 that the purpose for which the appropriation was made has
17 been fulfilled or will not be undertaken or continued; or, in
18 any event, whenever disbursements have not been made
19 against the appropriation for two full consecutive fiscal years:
20 *Provided*, That amounts of appropriations not limited to a
21 definite period of time which are withdrawn pursuant to this
22 section or were heretofore withdrawn from the appropriation
23 account by administrative action may be restored to the
24 applicable appropriation account for the payment of obliga-
25 tions and for the settlement of accounts.

1 SEC. 7. The following provisions of law are hereby
2 repealed:

3 (a) The proviso under the heading "PAYMENT OF CER-
4 TIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90;
5 31 U. S. C. 690) ;

6 (b) Section 2 of the Act of July 6, 1949 (63 Stat. 407;
7 31 U. S. C. 712b), but the repeal of this section shall not
8 be effective until June 30, 1957;

9 (c) The paragraph under the heading "PAYMENT OF
10 CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat.
11 358; 31 U. S. C. 712c) ;

12 (d) Section 5 of the Act of March 3, 1875 (18 Stat.
13 418; 31 U. S. C. 713a) ; and

14 (e) Section 3691 of the Revised Statutes, as amended
15 (31 U. S. C. 715) .

16 SEC. 8. The provisions of this Act shall not apply to the
17 appropriations for the District of Columbia.

84TH CONGRESS
2D Session

H. R. 9593

A BILL

To simplify accounting, facilitate the payment of obligations, and for other purposes.

By Mr. Dawson of Illinois

FEBRUARY 28, 1956

Referred to the Committee on Government Operations

A BILL

To amend the several Acts relating to the

Internal Revenue Service

and for other purposes

S. 3362

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, MARCH 2), 1956

Mr. KENNEDY (for himself, Mr. HUMPHREY, Mr. THURMOND, and Mr. COTTON) introduced the following bill; which was read twice and referred to the Committee on Government Operations

A BILL

To simplify accounting, facilitate the payment of obligations, and
for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That, except as otherwise provided by law, (a) the account
4 of each appropriation available for obligation for a definite
5 period of time shall, upon the expiration of such period,
6 be closed as follows:

7 (1) The obligated balance shall be transferred to an
8 appropriation account of the activity responsible for the
9 liquidation of the obligations, in which account shall be
10 merged the amounts so transferred from all appropriation
11 accounts for the same general purposes; and

1 (2) The remaining balance shall be withdrawn and,
2 if the appropriation was derived in whole or in part from
3 the general fund, shall revert to such fund, but if the appro-
4 priation was derived solely from a special or trust fund, shall
5 revert, unless otherwise provided by law, to the fund from
6 which derived.

7 (b) The transfers and withdrawals required by sub-
8 section (a) of this section shall be made—

9 (1) not later than September 30 of the fiscal year
10 immediately following the fiscal year in which the period
11 of availability for obligation expires, in the case of an
12 appropriation available both for obligation and dis-
13bursement, on or after the date of approval of this Act; or

14 (2) not later than September 30 of the fiscal year
15 immediately following the fiscal year in which this Act
16 is approved, in the case of an appropriation which, on
17 the date of approval of this Act, is available only for
18 disbursement.

19 (c) For the purposes of this Act, the obligated balance
20 of an appropriation account shall be the amount of unliqui-
21 dated obligations applicable to such appropriation less the
22 amount collectible as repayments to the appropriation as of
23 the close of the fiscal year as reported pursuant to section
24 1311 (b) of the Supplemental Appropriation Act, 1955
25 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections author-

1 ized to be credited to an appropriation but not received until
2 after the close of the fiscal year in which such appropriation
3 expires for obligation shall, unless otherwise authorized
4 by law, be credited to the appropriation account into which
5 the obligated balance has been or will be transferred, pur-
6 suant to subsection (a) (1), except that collections made
7 by the General Accounting Office for other Government
8 agencies may be deposited into the Treasury as miscellaneous
9 receipts.

10 (d) The transfers and withdrawals required pursuant
11 to subsection (a) of this section shall be accounted for and
12 reported as of the fiscal year in which the appropriations
13 concerned expire for obligation, except that such transfers
14 of appropriations described in subsection (b) (2) of this
15 section shall be accounted for and reported as of the fiscal
16 year in which this Act is approved.

17 SEC. 2. Each appropriation account established pur-
18 suant to this Act shall be accounted for as one fund and shall
19 be available without fiscal year limitation for payment of
20 obligations chargeable against any of the appropriations
21 from which such account was derived. Subject to regula-
22 tions to be prescribed by the Comptroller General of the
23 United States, payment of such obligations may be made
24 without prior action by the General Accounting Office, but
25 nothing contained in this Act shall be construed to relieve

1 the Comptroller General of the United States of his duty
2 to render decisions upon requests made pursuant to law or
3 to abridge the existing authority of the General Accounting
4 Office to settle and adjust claims, demands, and accounts.

5 SEC. 3. (a) Appropriation accounts established pursuant
6 to this Act shall be reviewed periodically but at least once
7 each fiscal year, by each activity responsible for the liquida-
8 tion of the obligations chargeable to such accounts. If the
9 undisbursed balance in any account exceeds the obligated
10 balance pertaining thereto, the amount of the excess shall
11 be withdrawn in the manner provided by section 1 (a) (2)
12 of this Act; but if the obligated balance exceeds the un-
13 disbursed balance, the amount of the excess shall be trans-
14 ferred to such account from the appropriation currently
15 available for the same general purposes. A review shall
16 be made as of the close of each fiscal year and the transfers
17 or withdrawals required by this section accomplished not
18 later than September 30 of the following fiscal year, but the
19 transactions shall be accounted for and reported as of the
20 close of the fiscal year to which such review pertains. A
21 review made as of any other date for which transfers or
22 withdrawals are accomplished after September 30 in any
23 fiscal year shall be accounted for and reported as transactions
24 of the fiscal year in which accomplished.

25 (b) Whenever a payment chargeable to an appropria-

1 tion account established pursuant to this Act would exceed
2 the undisbursed balance of such account, the amount of the
3 deficiency may be transferred to such account from the
4 appropriation currently available for the same general pur-
5 poses. Where such deficiency is caused by the failure to
6 collect repayments to appropriations merged with the appro-
7 priation account established pursuant to this Act, the amount
8 of the deficiency may be returned to such current appro-
9 priation if the repayments are subsequently collected during
10 the same fiscal year.

11 (c) In connection with his audit responsibilities,
12 the Comptroller General of the United States shall report
13 to the head of the agency concerned, to the Sec-
14 retary of the Treasury, and to the Director of the
15 Bureau of the Budget, respecting operations under this Act,
16 including an appraisal of the unliquidated obligations under
17 the appropriation accounts established by this Act. Within
18 thirty days after receipt of such report, the agency concerned
19 shall accomplish any actions required by subsection (a) of
20 this section which such report shows to be necessary.

21 SEC. 4. During the fiscal year following the fiscal year
22 in which this Act becomes effective, and under rules and
23 regulations to be prescribed by the Comptroller General of
24 the United States, the undisbursed balance of the appro-
25 priation account for payment of certified claims established

1 pursuant to section 2 of the Act of July 6, 1949 (63 Stat.
2 407; 31 U. S. C. 712b), shall be closed in the manner pro-
3 vided in section 1 (a) of this Act.

4 SEC. 5. The obligated balances of appropriations made
5 available for obligation for definite periods of time under
6 discontinued appropriation heads may be merged in the
7 appropriation accounts provided for by section 1 hereof, or
8 in one or more other accounts to be established pursuant
9 to this Act for discontinued appropriations of the activity
10 currently responsible for the liquidation of the obligations.

11 SEC. 6. The unobligated balances of appropriations
12 which are not limited to a definite period of time shall be
13 withdrawn in the manner provided in section 1 (a) (2) of
14 this Act whenever the head of the agency concerned shall
15 determine that the purpose for which the appropriation was
16 made has been fulfilled or will not be undertaken or con-
17 tinued; or, in any event, whenever disbursements have not
18 been made against the appropriation for two full consecutive
19 fiscal years: *Provided*, That amounts of appropriations not
20 limited to a definite period of time which are withdrawn
21 pursuant to this section or were heretofore withdrawn from
22 the appropriation account by administrative action may be
23 restored to the applicable appropriation account for the
24 payment of obligations and for the settlement of accounts.

1 SEC. 7. The following provisions of law are hereby
2 repealed.

3 (a) The proviso under the heading "Payment of certi-
4 fied claims" in the Act of April 25, 1945 (59 Stat. 90; 31
5 U. S. C. 690) ;

6 (b) Section 2 of the Act of July 6, 1949 (63 Stat.
7 407; 31 U. S. C. 712b) , but the repeal of this section shall
8 not be effective until June 30, 1957 ;

9 (c) The paragraph under the heading "Payment of
10 certified claims" in the Act of June 30, 1949 (63 Stat. 358;
11 31 U. S. C. 712c) ;

12 (d) Section 5 of the Act of March 3, 1875 (18 Stat.
13 418; 31 U. S. C. 713a) ; and

14 (e) Section 3691 of the Revised Statutes, as amended
15 (31 U. S. C. 715) .

16 SEC. 8. The provisions of this Act shall not apply to the
17 appropriations for the District of Columbia.

A BILL

To simplify accounting, facilitate the payment of obligations, and for other purposes.

By Mr. KENNEDY, Mr. HUMPHREY, Mr. THURMOND, and Mr. COTTON

MARCH 5 (legislative day, MARCH 2), 1956
Read twice and referred to the Committee on
Government Operations

By Mr. MAGNUSON (by request):

S. 3365. A bill to amend section 410 of the Interstate Commerce Act, as amended, to change the requirements for obtaining a freight-forwarder permit;

S. 3366. A bill to amend section 409 of the Interstate Commerce Act, as amended, to authorize contracts between freight forwarders and railroads for the movement of trailers on flatcars; and

S. 3367. A bill to amend section 411 of the Interstate Commerce Act, as amended, with respect to relationships between freight forwarders and other common carriers; to the Committee on Interstate and Foreign Commerce.

DISPOSITION OF FEDERALLY OWNED LANDS FOR AGRICULTURAL PURPOSES

Mr. CAPEHART submitted the following resolution (S. Res. 224), which was referred to the Committee on Agriculture and Forestry:

Resolved, That it is hereby declared to be the sense of the Senate (A) that after the date on which this resolution is agreed to, no agreement shall be entered into by any department, agency, or instrumentality of the Federal Government for the rental or leasing of any lands under its jurisdiction to any private person, association, or corporation, if such lands are to be used by such person, association, or corporation for any agricultural purpose, except grazing, and (B) that when any department, agency, or instrumentality of the Federal Government has lands under its jurisdiction which are in excess to its needs and which are suitable for agricultural use, such lands should be disposed of in accordance with the existing laws providing for the disposition of federally owned real property.

FEDERAL EQUAL PAY ACT

Mr. IVES. Mr. President, on behalf of myself, the junior Senator from Colorado [Mr. ALLOTT], the junior Senator from Ohio [Mr. BENDER], and the Senators from Connecticut [Mr. BUSH and Mr. PURCELL], I introduce, for appropriate reference, a bill to prohibit discrimination on account of sex in the payment of wages by employers having employees engaged in commerce or in the production of goods for commerce.

I ask unanimous consent that the bill may be kept on the desk until next Monday—1 week—in order that any Senator who may care to associate himself as a sponsor may have that opportunity.

This bill provides that a man and a woman who perform the same work, or comparable work, in the same establishment must be paid at the same rate, taking into consideration performance and length of service. President Eisenhower in his state of the Union message on January 5 of this year stated:

Legislation to apply the principle of equal pay for equal work without discrimination because of sex is a matter of simple justice.

This bill is designed to carry out this recommendation of the President to the Congress.

Although many States, including my own, have enacted equal pay legislation, a substantial number of States have failed to do so. The establishment by the Congress of the United States of equal pay legislation would serve as a guide to all employers throughout the

country. Women workers, who constitute almost one-third of the labor force in the United States, would be the principal beneficiaries. Moreover, the provisions of this bill would not affect collective bargaining in any way, but would merely protect female employees against wage discrimination.

I ask unanimous consent to have printed in the RECORD, at this point in my remarks, the text of the bill and a short explanation of its provisions.

The ACTING PRESIDENT pro tempore. The bill will be received and appropriately referred; and, without objection, the bill and explanation will be printed in the RECORD.

The bill (S. 3352) to prohibit discrimination on account of sex in the payment of wages by employers having employees engaged in commerce or in the production of goods for commerce, and to provide procedures for assisting employees in collecting wages lost by reason of any such discrimination, introduced by Mr. IVES (for himself and other Senators), was received, read twice by its title, referred to the Committee on Labor and Public Welfare, and ordered to be printed in the RECORD, as follows:

Be it enacted, etc., That this act may be cited as the "Federal Equal Pay Act."

FINDINGS AND DECLARATION OF POLICY

SEC. 2. (a) The Congress hereby finds that the existence in industries engaged in commerce or in the production of goods for commerce of wage differentials based on sex—

(1) depresses wages and living standards of employees necessary for their health and efficiency;

(2) prevents the maximum utilization of the available labor resources;

(3) tends to cause labor disputes, thereby burdening, affecting, and obstructing commerce;

(4) burdens commerce and the free flow of goods in commerce;

(5) constitutes an unfair method of competition.

(b) It is hereby declared to be the policy of this act, through the exercise by Congress of its power to regulate commerce among the several States and with foreign nations, to correct the conditions above referred to in such industries.

PROHIBITION OF WAGE-RATE DIFFERENTIAL BASED ON SEX

SEC. 3. No employer having employees engaged in commerce or in the production of goods for commerce shall discriminate, in any place of employment in which his employees are so engaged, between employees on the basis of sex by paying wages to any employee at a rate less than the rate at which he pays wages to employees of the opposite sex for work of comparable character on jobs the performance of which requires comparable skills, except where such payment is made pursuant to a seniority or merit increase system which does not discriminate on the basis of sex.

ADMINISTRATION

SEC. 4. (a) The Secretary—

(1) shall prescribe such regulations as he deems necessary and appropriate for the administration of this act, including regulations to provide standards for determining work of comparable character on jobs the performance of which requires comparable skills; and

(2) may investigate and gather data regarding the wages, hours, and other conditions and practices of employment in any industry subject to this act, and may enter and inspect such places and such records

(and make such transcriptions thereof), question such employees, and investigate such facts, conditions, practices, and matters as he may deem necessary or appropriate to determine whether any person has violated any provision of this act, or which may aid in the enforcement of the provisions of this act; and

(3) shall bring all actions under section 9 to restrain violations of this act. Attorneys appointed by, or under the authority of, the Secretary may appear for and represent the Secretary in any litigation but all such litigation shall be subject to the direction and control of the Attorney General.

(b) For the purpose of any hearing or investigation provided for in this act, the provisions of sections 9 and 10 (relating to the attendance of witnesses and the production of books, papers, and documents) of the Federal Trade Commission Act of September 16, 1914, as amended (U. S. C., 1952 edition, title 15, secs. 49 and 50), are hereby made applicable to the jurisdiction, powers, and duties of the Secretary.

WAGE RESTITUTION AND LIQUIDATED DAMAGES

SEC. 5. Any employer who violates section 3 of this act shall be liable to each employee affected in the amount of the wages of which such employee is deprived by reason of such violation, and in an additional equal amount as liquidated damages: *Provided*, That in any action brought under section 6 (a) to recover such unpaid wages, if the employer shows to the satisfaction of the court that the act or omission giving rise to such action was in good faith and that he had reasonable grounds for believing that his act or omission was not a violation of section 3, the court may, in its sound discretion, award no liquidated damages or award any amount thereof not to exceed the amount specified in this section.

ENFORCEMENT

SEC. 6. (a) Action to recover any amount for which an employer is liable under section 5 may be maintained in any court of competent jurisdiction by any one or more affected employees for and in behalf of himself or themselves and other employees similarly situated. No employee shall be a party plaintiff to any such action unless he has given his consent in writing to become such a party and such consent is filed in the court in which such action is brought. The court in such action shall, in addition to any judgment awarded to the plaintiff or plaintiffs, allow a reasonable attorney's fee to be paid by the defendant, and costs of the action.

(b) The Secretary is authorized to supervise the payment of any amounts of unpaid wages for which an employer is liable under section 5, and the agreement of any employee to accept such payment shall upon payment in full constitute a waiver by such employee of any right of action he may have under subsection (a) to recover such amounts and any additional amount as liquidated damages. When a written request is filed by any employee with the Secretary claiming any amount as unpaid wages owing under section 5, the Secretary may bring an action in any court of competent jurisdiction to recover such amount. The consent of any employee to the bringing of any such action by the Secretary, unless such action is dismissed without prejudice on motion of the Secretary, shall constitute a waiver by such employee of any right of action he may have with respect to the claim and any additional amount as liquidated damages under subsection (a). Any sums recovered by the Secretary on behalf of an employee in an action brought under this subsection shall be held in a special deposit account and shall be paid, on order of the Secretary, directly to the employee. Any such sums not paid to an employee because of inability to do so within a period of 3 years shall be covered into the Treasury of the United States as miscellaneous receipts.

(c) Any action commenced under this section shall be barred unless commenced within 2 years after the cause of action accrues.

POSTING

SEC. 7. A copy of this act or, if approved by the Secretary, a poster explaining its provisions shall be displayed conspicuously by every employer in each place of employment in which he employs any employees to whom this act applies.

UNLAWFUL DISCHARGE OR DISCRIMINATION; PENALTIES

SEC. 8. (a) It shall be unlawful for any person to discharge or in any other manner discriminate against any employee because such employee has filed any complaint or instituted any proceeding under this act, or has testified or is about to testify in any such proceeding, or has furnished information or is about to furnish information in connection with the enforcement of this act.

(b) Any person who wilfully violates the provisions of subsection (a) shall be fined not more than \$10,000 or imprisoned for not more than 6 months, or both; but no person shall be imprisoned under this section except for an offense committed after the conviction of such person for a prior offense under this subsection.

(c) The United States district courts, together with the District Court for the Territory of Alaska, the United States District Court for the District of the Canal Zone, the District Court of the Virgin Islands, and the District Court of Guam, shall have jurisdiction of criminal proceedings for violations of this section.

INJUNCTION PROCEEDINGS

SEC. 9. The United States district courts, together with the District Court for the Territory of Alaska, the United States District Court for the District of the Canal Zone, the District Court of the Virgin Islands and the District Court of Guam, shall have jurisdiction, for cause shown, to restrain violations of section 3, section 7, or section 8, or any of the provisions of the regulations of the Secretary issued under section 4.

DEFINITIONS

SEC. 10. As used in this act—

(a) "Secretary" means the Secretary of Labor, United States Department of Labor.

(b) "Person" means an individual, partnership, association, corporation, business trust, legal representative, or any organized group of persons.

(c) "Commerce" means trade, commerce, transportation, transmission, or communication among the several States or between any State and any place outside thereof.

(d) "State" means any State of the United States, the District of Columbia, the outer Continental Shelf describe in Public Law 212, 83d Congress (67 Stat. 462), or any Territory or possession subject to the exercise by the United States of sovereign rights, powers, or authority.

(e) "Employer" includes any person acting directly or indirectly in the interest of an employer in relation to an employee but shall not include the United States or any State or political subdivision of a State, or any labor organization (other than when acting as an employer), or anyone acting in the capacity of officer or agent of such labor organization.

(f) "Employee" includes any individual employed by an employer.

(g) "Employ" includes to suffer or permit to work.

(h) "Goods" means goods (including ships and marine equipment), wares, products, commodities, merchandise, or articles or subjects of commerce of any character, or any part or ingredient thereof, but does not include goods after their delivery into the actual physical possession of the

ultimate consumer thereof other than a producer, manufacturer, or processor thereof.

(i) "Produced" means produced, manufactured, mined, handled, or in any other manner worked on in any State; and for the purposes of this act an employer shall be deemed to have been engaged in the production of goods if such employee was employed in producing, manufacturing, mining, handling, transporting, or in any other manner working on such goods, or in any closely related process or occupation directly essential to the production thereof, in any State.

(j) "Wage" paid to any employee includes the reasonable cost, as determined by the Secretary to the employer of furnishing such employee with board, lodging, or other facilities, if such board, lodging, or other facilities are customarily furnished by such employer to his employees.

APPROPRIATION

SEC. 11. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this act.

EFFECTIVE DATE

SEC. 12. This act shall take effect 120 days after the date of enactment.

The statement and analysis, presented by Mr. IVES, is as follows:

STATEMENT IN EXPLANATION OF THE PROVISIONS OF PROVIDING EQUAL PAY WITHOUT DISCRIMINATION ON ACCOUNT OF SEX IN INTERSTATE EMPLOYMENT

The purpose of this proposal is to provide a means within the scope of the Federal regulatory power to eliminate discrimination in wage rates based on sex where men and women are performing comparable work for the same employer.

The proposal would apply to employers whose employees are engaged in commerce or in the production of goods for interstate commerce. The administration of the act would be vested in the Secretary of Labor and procedures of enforcement and wage collection authorized similar to those now utilized by the Department of Labor in the administration of the Fair Labor Standards Act.

The payment of lower wage rates to workers of one sex for the same or comparable work as that performed by the other sex has an undesirable effect on the economic life of the entire Nation. Such practices tend to affect adversely the general purchasing power and the standards of living of workers. Unfair competitive advantages are enjoyed by employers who pay discriminatory wage rates based on sex. In addition to the tangible economic ills caused by discriminatory wage practices, such practices violate fundamental principles of justice and impair the prestige of the United States in international affairs. A nondiscriminatory wage level makes possible the maximum utilization of worker skills. This, together with collateral benefits, such as morale improvement, may stimulate production and lessen the effects of unfair competition.

It is of great importance that Congress eradicate discriminatory pay practices in interstate commerce.

EQUAL PAY PROPOSAL—SECTION-BY-SECTION ANALYSIS

Section 1: Title of act: Establishes short title of Federal Equal Pay Act.

Section 2: Findings and declaration of policy: Enumerates undesirable conditions in interstate commerce resulting from payment of wage differentials based on sex and intention of Congress to correct such conditions.

Section 3: Prohibition of wage rate differential based on sex: Prohibits employers having employees engaged in commerce or in the production of goods for commerce from discriminating on the basis of sex, in payment

of wages in any place of employment in which their employees are so engaged. The language descriptive of proposed coverage and the supporting definitions in section 10 are phrased to make available precedents established under the Fair Labor Standards Act in determining coverage under the proposed legislation.

Section 4: Administration: Authorizes the Secretary of Labor to issue rules and regulations, make investigations regarding compliance with the act, issue subpoenas, and restrain violations. These provisions are largely adapted from similar provisions of the Fair Labor Standards Act.

Section 5: Wage restitution and liquidated damages: Provides that employers who violate the act shall be liable for wages for which an employee is deprived and for not more than an additional equal amount as liquidated damages. The liability in employee suits for unpaid wages and liquidated damages is like that now provided by the Fair Labor Standards Act, as modified by section 11 of the Portal-to-Portal Act.

Section 6: Enforcement: Authorizes employee suits to recover amount of employer liability under section 5. Authorizes Secretary to supervise payment of wages withheld in violation of the act and to bring suits for such wages in behalf of employees upon their request. The recovery of unpaid wages, but not liquidated damages, is authorized in suits by the Secretary of Labor or by administrative action in supervising employer payments. Establishes a 2-year period of limitation for commencing recovery action after cause accrues.

Section 7: Posting: Requires employer to post copy of act or official poster explaining its provisions in each place of employment where act applies.

Section 8: Unlawful discharge or discrimination and penalties: Makes it unlawful willfully to discharge or discriminate against any employee assisting in the enforcement of the act. Upon a second conviction for such discharge, or discrimination, imposes a criminal penalty. Provides that the United States district courts will have jurisdiction of criminal proceedings for violation of this section.

Section 9: Injunction proceedings: Provides that the United States district courts will have jurisdiction to restrain violations of the act or regulations issued under it.

Section 10: Definitions: Defines terms used in the act principally as defined in the Fair Labor Standards Act.

Section 11: Appropriation: Authorizes necessary appropriations to carry out act.

Section 12: Effective date: Provides that act will take effect 120 days after passage.

SIMPLIFICATION OF FEDERAL ACCOUNTING

Mr. KENNEDY. Mr. President, on behalf of myself, the Senator from Minnesota [Mr. HUMPHREY], the Senator from South Carolina [Mr. THURMOND], and the Senator from New Hampshire [Mr. CORTON], I introduce, for appropriate reference, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes. The proposed legislation implements two of the second Hoover Commission's recommendations relating to the governmental budget and accounting.

This bill would expedite the payment of delayed bills where appropriations have lapsed, and improve the Government's accounting and reporting system.

It would authorize the various agencies of Government to pay undisputed bills chargeable to expired and lapsed appropriations in precisely the same

manner as bills payable from currently available appropriations. This will be accomplished by repealing existing requirements that all obligations chargeable to lapsed appropriations, shall be certified by the General Accounting Office, in advance of payment as legally due and payable from the lapsed appropriations; by permitting agencies on an indefinite basis to retain obligated balances of all appropriations made to them; and by specifically granting authority to the agencies to pay prior year obligations, from the retained balances through regular disbursing channels. These payments would be audited by the General Accounting Office.

As a result of the changes proposed by the bill, the General Accounting Office would discontinue the maintenance of approximately 35,000 detailed ledger accounts which are largely duplicative of accounting records also required to be maintained in the several agencies. Professional claims adjudicators and supporting personnel now utilized by General Accounting Office in reexamining and certifying for payment bills which previously have been examined and acknowledged by the agencies concerned, as due and payable, will be available for assignment to more productive endeavors.

Mr. President, I am assured, if enacted into law, this bill will make possible substantial savings in manpower and administrative expenses, modernize Government accounting, and effectuate the Hoover Commission recommendations in this important area.

The ACTING PRESIDENT pro tempore. The bill will be received and appropriately referred.

The bill (S. 3362) to simplify accounting, facilitate the payment of obligations, and for other purposes, introduced by Mr. KENNEDY (for himself, Mr. HUMPHREY, Mr. THURMOND, and Mr. COTTON), was received, read twice by its title, and referred to the Committee on Government Operations.

AGRICULTURAL ACT OF 1956— AMENDMENTS

Mr. WILLIAMS submitted an amendment, intended to be proposed by him, to the bill (S. 3183) to provide an improved farm program, which was ordered to lie on the table and to be printed.

Mr. ANDERSON submitted an amendment, intended to be proposed by him, to Senate bill 3183, supra, which was ordered to lie on the table and to be printed.

Mr. MURRAY (for himself and Mr. KEFAUVER) submitted an amendment, intended to be proposed by them, jointly, to Senate bill 3183, supra, which was ordered to lie on the table and to be printed.

Mr. MURRAY (for Mr. KEFAUVER) submitted an amendment, intended to be proposed by Mr. KEFAUVER to Senate bill 3183, supra, which was ordered to lie on the table and to be printed.

Mr. CAPEHART submitted an amendment, intended to be proposed by him to Senate bill 3183, supra, which was ordered to lie on the table and to be printed.

FEDERAL ELECTIONS ACT OF 1956— ADDITIONAL COSPONSORS OF BILL

Pursuant to the order of the Senate of February 28, 1956,

The names of Mr. COTTON, Mr. PASTORE, Mr. BUSH, Mr. IVES, Mr. JOHNSTON of South Carolina, Mr. GEORGE, Mr. CASE of South Dakota, Mr. MARTIN of Pennsylvania, Mr. SMATHERS, Mr. BEALL, Mr. MONRONEY, Mr. EASTLAND, Mr. THURMOND, Mr. McCLELLAN, Mr. SMITH of New Jersey, Mr. HOLLAND, Mr. DUFF, Mr. PAYNE, Mr. ELLENDER, Mr. THYE, Mr. SALTONSTALL, Mr. BRICKER, Mr. STENNIS, Mr. BENDER, Mr. BENNETT, Mr. HICKENLOOPER, Mr. ERVIN, Mr. MALONE, Mr. WILEY, Mr. KUCHEL, Mr. ALLOTT, Mr. CASE of New Jersey, and Mr. WELKER were added as cosponsors to the bill (S. 3308) to revise the Federal election laws, to prevent corrupt practices in Federal elections, to permit deductions for Federal income tax purposes of certain political contributions, and for other purposes, introduced by Mr. JOHNSON of Texas (for himself and other Senators) on February 28, 1956.

Mr. BENNETT. Mr. President, I should like to address the Senate for 2 minutes, under the 2-minute rule.

Mr. President, I am happy to join with the distinguished senior Senator from Texas [Mr. JOHNSON] and the distinguished senior Senator from California [Mr. KNOWLAND], as well as many other Members of the Senate, in sponsoring the bill (S. 3308) to strengthen our Federal election laws.

I believe it has become increasingly apparent that our existing election laws are antiquated in many respects; and the inadequacy of these laws has been of considerable concern to me. I am gratified to see in the proposed law a provision for complete accounting by Federal candidates of their campaign contributions and their expenditures, as well as a requirement that large contributors make an accurate and complete report of their contributions.

Although the campaigns in my State do not usually result in the expenditure of large sums of money, I think the provision of the bill establishing a more realistic spending limit is of very real importance to candidates seeking election from the more populous States. I believe small campaign contributors should be encouraged to aid the candidates of their choice, and I am glad to see in the bill provisions to make their help more possible.

But, Mr. President, I have noticed that there is considerable conflict between the election laws of many States and the proposed Federal election law, in respect to the expenditures made by candidates for Federal office. I hope that in the development of the hearings on this bill, some attention will be paid to these conflicts and variations. Although I realize that we cannot legislate State laws on the floor of the national Congress, I hope that before this bill is finally enacted, we may appropriately call this problem to the attention of the various State legislatures. Certainly a candidate should not be placed in the position of operating with the sanction of one set of laws,

although being in jeopardy under a separate and different set of laws.

Therefore, Mr. President, I hope it will be possible for the Congress to suggest the development of a uniform State law which will be more or less in conformity with whatever law the Congress passes.

For this reason and others, Mr. President, I am happy to join in sponsoring this bill.

NATIONAL CIVIL AIR PATROL DAY— ADDITIONAL COSPONSORS OF JOINT RESOLUTION

Pursuant to the order of the Senate of February 29, 1956,

The names of Mr. HRUSKA, Mr. POTTER, Mr. MARTIN of Pennsylvania, Mr. FULBRIGHT, Mr. CAPEHART, Mr. SYMINGTON, Mr. LEHMAN, Mr. HUMPHREY, and Mr. KUCHEL were added as additional cosponsors to the joint resolution (S. J. Res. 151) to authorize the President to proclaim December 1 of each year as National Civil Air Patrol Day, introduced by Mr. FREAR (for himself and other Senators), on February 29, 1956.

PRINTING OF REVIEW OF REPORT ON LAKE CHAUTAUQUA AND CHA- DAKON RIVER, JAMESTOWN, N. Y. (S. DOC. NO. 103)

Mr. CHAVEZ. Mr. President, I present a letter from the Secretary of the Army, transmitting a report dated June 23, 1955, from the Chief of Engineers, Department of the Army, together with accompanying papers and an illustration, on a review of report on Lake Chautauqua and Chadakoin River, Jamestown, N. Y., requested by a resolution of the Committee on Public Works adopted on June 17, 1942. I ask unanimous consent that the report be printed as a Senate document, with an illustration, and referred to the Committee on Public Works.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

REPORT OF THEODORE ROOSEVELT CENTENNIAL COMMISSION (S. DOC. NO. 102)

Mr. O'MAHONEY. Mr. President, earlier today the Acting President pro tempore laid before the Senate the report of the Theodore Roosevelt Centennial Commission for the Celebration in 1958 of the One Hundredth Anniversary of Theodore Roosevelt. I ask unanimous consent that the report be printed as a Senate document, with illustrations.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

ADDRESSES, EDITORIALS, ARTI- CLES, ETC., PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, etc., were ordered to be printed in the Appendix, as follows:

By Mr. KENNEDY:

Statement prepared by him relating to conditions in Poland.

Release by the United States Information Agency relating to Leroy James Benoit and conditions in Brazil.

By Mr. LANGER:

Article entitled "Bensonomics" Is Blasted by High-Support Senator," written by Senator ELLENDER, and published in the Washington Sunday Star of March 4, 1956.

Statement by George McLain, president of the National Institute of Social Welfare, before the Senate Committee on Finance, February 29, 1956.

GTA daily radio roundup of Wednesday, February 29, 1956.

By Mr. ERVIN:

Address entitled "The Creaking of a Retired Raven on a Withered Branch," delivered by D. Hiden Ramsey before midwinter institute of the North Carolina Press Association at Chapel Hill, N. C.

By Mr. ROBERTSON:

Address entitled "Freedom of Choice in Public Schools," delivered by Robert B. Troutman before the Rotary Club, of Atlanta, Ga., and printed in the Christian Science Monitor of March 1, 1956.

By Mr. AIKEN:

Address entitled "The Advantage of Our Mixed Economy," delivered by Dean J. M. Martin, of Laval University, in Quebec, Canada, on February 14, 1956.

Editorial entitled "France's Great Qualities," written by Henry C. Wolfe, and published in the New York Herald Tribune.

By Mr. BRIDGES:

Editorial from the Manchester Union Leader, of Manchester, N. H., February 22, 1956, supporting the Bricker amendment.

Editorial entitled "Freedom of Travel Isn't for Red Agents," from the Saturday Evening Post.

Editorial entitled "Judge Lemelin's Stand," from the Manchester Union Leader, of Manchester, N. H., commenting on the fight against communism.

Article entitled "Communists Continue War Against Churches," from the Washington Star of March 4, 1956.

By Mr. THYE:

Editorial entitled "Everybody's Doing It," published in the Farm Journal of March 1956, dealing with surpluses and subsidies.

By Mr. SALTONSTALL:

Article entitled "How Can We Counter Offensive Charted at Red Party Congress?" written by W. W. Rostow, and published in the Washington Sunday Star of March 4, 1956.

By Mr. MONRONEY:

Editorial entitled "Back to Burke," published in the Washington Evening Star of February 24, 1956, and an editorial entitled "Back to Burke," published in the Washington Post and Times Herald of February 28, 1956, both relating to proposed airport at Burke, Va.

Sundry editorials published in newspapers, principally in gas-consuming States regarding Presidential veto of Harris-Fulbright bill.

Editorial entitled "Ideal Spot for Navy Trainees," published in the Norman (Okla.) Transcript of February 24, 1956; and telegram to him from Hon. Raymond Gary, Governor of Oklahoma, relating to proposed discontinuance of naval air technical training school at Norman, Okla.

ANCHER NELSEN, ADMINISTRATOR OF THE REA

Mr. POTTER. Mr. President, on February 8 the senior Senator from Montana offered for the RECORD an article from the Nashville Tennessean purporting to show evidence of pressure on members of the resolutions committee of the National Rural Electric Cooperative Association.

This article does a serious injustice to a Federal official, Ancher Nelsen, who,

as Administrator of the Rural Electrification Administration, is doing an outstanding job. That is not merely my opinion, but it is the opinion of many people who have had a long and close association with the REA program, and who are intimately familiar with its operations.

On February 27, the junior Senator from South Dakota [Mr. CASE] and the senior Senator from South Dakota [Mr. MUNDT] presented evidence which bears out the fact that Mr. Nelsen was unjustly and falsely accused. I can present additional evidence that such is the case.

One of my constituents who was present and active at the meeting described in the newspaper article previously referred to has sent me a copy of a letter he has written to Mr. Nelsen. What he said in the letter is extremely illuminating. I ask unanimous consent that the letter be printed in the RECORD.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

FEBRUARY 9, 1956.

MR. ANCHER NELSEN,
Administrator, United States Department of Agriculture, Rural Electrification, Washington, D. C.

DEAR MR. NELSON: As the vice chairman of the resolutions committee of the NRECA 1956 annual meeting, I cannot tell you how shocked I was to read the article that appeared in the Nashville Tennessean on January 29.

I have been a member of this committee for the past 2 years and believe I know something about the committee's way of operation and general attitudes. I must say that the picture reflected in the newspaper surprised me. It certainly does not represent what I believe to be fact.

My first reason for this belief is that it was the majority of the committee that asked you to appear before us to answer any questions any member of the committee might have. I was present, I believe, during the times you faced the resolutions committee while in session in St. Louis and know first hand what took place. It is my opinion we were after the facts, those that we could get from you as well as those we could get from others. I feel that if in our deliberations our conclusions are not reached with proper facts, we would not be doing justice to our responsibilities.

The newspaper writer includes this quotation: "He knew some of our committee members had loan applications before him and he wished to argue with us about each issue that might come up. We didn't give him the chance. Nobody before had ever asked such a chance."

I cannot say this quotation is in error, but I can say it is far from the facts. The facts that you offered your cooperation to your fullest extent and informed the committee that you would be available any time they wished to call you back. I am sure the committee as a whole were more than pleased to have you available any time they had a problem you could assist them with.

During the 2 years I have served on the committee, it has been the policy of the committee to request anyone to appear before them to answer questions or to clarify problems the committee might have. This has been a great assistance to the committee in the past 2 years and has greatly assisted in preparing good resolutions.

I note in the above-mentioned article there is an attempt by the writer to show your appearance is unprecedented. I again say your appearance was by request of the majority of the committee not only this year but last year as well. I cannot speak as to

previous years but I do wonder how this committee functioned in an intelligent manner if it did not seek information from expert authorities prior to their composition of resolutions proposed for adoption on a national scale.

Very truly yours,
WOLVERINE ELECTRIC COOPERATIVE,
JOHN N. KEEN, Manager

HIRING OF BRAUN & CO. AS CONSULTANT FOR REPUBLICAN NATIONAL COMMITTEE

Mr. BRIDGES. Mr. President, my attention has recently been called to a statement made by Mr. T. W. Braun, president of Braun & Co., a Los Angeles public-relations firm.

On the pending farm bill, there are honest differences of opinion. However, an attack was recently made on certain individuals who have rendered public service with relation to the pending legislation. For that reason, I desire that the RECORD be correct.

In the course of debate, it was stated that Braun & Co. was under indictment in Texas. That is incorrect. The case was a conventional antitrust case, and I am informed a Department of Justice official stated that Braun & Co. was named only as an alleged conspirator in the case, and was not named as a defendant.

I am also informed that the indictment was later dismissed by the Government, and a so-called "information" was substituted.

I ask unanimous consent to have printed in the RECORD at this point a telegram sent to the Senator from Minnesota [Mr. HUMPHREY], by Braun & Co., signed by T. W. Braun, president.

There being no objection, the telegram was ordered to be printed in the RECORD, as follows:

Reference your remarks about Secretary of Agriculture Benson and Braun & Co. in the Senate, March 1.

If you had checked the whole record you would have found that we have worked for the Government on a nonpartisan and public-service basis in various ways since 1941.

My last effort under a Democratic administration was as a consultant in the executive office of the President in 1950. I was a member of the staff which studied and reported to the President on foreign economic policies.

In terms of solid assistance to American farmers, we are proud to match our record against political smears and character assassinations.

For over 20 years one of our principal activities has been in the field of increasing sales and consumption of farm products, especially those in surplus.

Beginning in 1936, we played a leading part in developing the producer-consumer campaign idea. Since then about 300 promotions have been conducted on such products as citrus fruits, apples, pears, peaches, cherries, lettuce, cabbage, potatoes, dairy products, and meat. In 1954 alone, 28 farm items were given national promotion to increase consumption of foods in heavy supply.

Our client, Safeway Stores, Inc., was one of the leaders in an expenditure by food chains alone of about \$12½ million advertising fresh beef in a recent drive on that product. The results in increase consumption were spectacular and in the neighborhood of 18 pounds per capita.

Similar campaigns have been undertaken to increase the consumption of the large

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

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For actions of

March 28, 1956
March 27, 1956
84th-2nd, No. 54

CONTENTS

Accounting.....6	Foreign trade.....27	Price supports.....1,26
Acreage allotments.....11	Forestry.....9,14,33	Property.....13
Appropriations.....4,13	Fruits.....7	Reclamation.....3
Conservation.....24	Gasoline.....2,12	Reference service.....23
Cooperatives.....22	Information.....23	Research.....8,28
Cotton.....1,11	Livestock.....26	Social security.....19
Credit unions.....30	Milk.....15,19	Soil bank.....1,26
Dairy products.....5,15	Monopolies.....34	Stockpiling.....10
Electrification.....22	Newsprint.....9	Surplus commodities.....5,8
Farm program.....1,20,35	Organization, executive.....16	Taxation.....2,12
Fisheries.....24	Personnel.....31	TVA.....22
Flood control.....17	Postal rates.....32	Water resources.....24,29
Food and drugs.....7	Poultry products.....25	Wool.....27
Foreign aid.....21		

HIGHLIGHTS: Conferees reached agreement on several provisions of farm bill. Senate agreed to conference report on bill to relieve farmers of excise tax on gasoline. House received conference report on bill to relieve farmers of excise tax on gasoline. House received conference report on Colorado River storage project bill. Rep. Johnson, Wis., alleged that this administration did not inherit dairy products surplus. Rep. Cooley and others suggested that conference report on farm bill would be ready after Easter recess. House received conference report on Treasury-Post Office appropriation bill for 1957. Rep. Harvey urged favorable consideration of measure for research in industrial use of agricultural products.

HOUSE

1. FARM PROGRAM. The "Daily Digest" states: "Conferees continued, in executive session, to resolve the differences between the Senate and House-passed versions of H. R. 12, Agricultural Act of 1956. Following today's session, it was announced that the conferees had agreed to (1) adopt 90 percent of parity for 1 year for basic crops, (2) adopt the dual-parity formula as passed by the Senate and require the Secretary of Agriculture to conduct a study of parity formulas, with submission of his recommendations thereon to the Congress not later than January 30, 1957, and (3) with regard to the proposed soil-bank program, strike from the bill limitations of \$100,000 as total price support to be received by any one person, \$25,000 as total amount to be received by any one person on acreage programs, and \$7,500 as total amount to be received by any one person on conservation reserves.

"In an afternoon session, the conferees agreed to strike out the provision in the bill passed by the Senate providing for change in the import quotas for extra-long staple cotton, and adopted revised language directing the sale for export at competitive world prices CCC stocks of such cotton." p. D297

Rep. Hoffman speculated on the possibility of consideration of H. R. 12, the farm bill, on Thurs. or Fri., Mar. 29 or 30. p. 5080

Rep. Cooley, Majority Leader, McCormack, and others expressed the opinion that because of the complicated nature of the farm bill, the conference report would not be ready until after the Easter recess. p. 5086

2. TAXATION. Received the conference report on H. R. 8780, to provide for the relief of farmers from the Federal excise tax on gasoline used on the farm (H. Rept. 1957). pp. 5075, 5098
3. RECLAMATION. Received the conference report on S. 500, to authorize the construction, operation, and maintenance of the Colorado River storage project (H. Rept. 1950) (pp. 5076, 5098). Unanimous consent was requested for the consideration of the conference report, but Rep. Hiestand objected (p. 5085).
4. APPROPRIATIONS. Received the conference report on H. R. 9064, the Treasury-Post Office appropriation bill for 1957 (H. Rept. 1956). pp. 5085, 5098
5. DAIRY PRODUCTS. Rep. Johnson, Wis., alleged that the so-called dairy products surplus was not inherited by this Administration, but rather that the surplus had increased under this Administration. p. 5079
6. ACCOUNTING. The Executive and Legislative Reorganization Subcommittee of the Government Operations Committee ordered reported with amendments to the full committee H. R. 9593, to simplify accounting and facilitate the payment of obligations. p. D296
7. FRUITS. The Interstate and Foreign Commerce Committee ordered reported with amendment H. R. 7732, to amend the Food, Drug, and Cosmetic Act regarding artificial coloring of oranges. p. D296
8. RESEARCH. Rep. Harvey and others urged favorable consideration of bills providing for research in the industrial uses of agricultural products. Rep. Harvey spoke specifically in favor of his bill, H. R. 10125. p. 5091
9. FORESTRY. The Interstate and Foreign Commerce Committee submitted an interim report, "Newsprint Study---Newsprint Outlook for 1956" (H. Rept. 1953). p. 5098
10. STOCKPILING. Both Houses received from ODM the report on the stockpiling program for July 1 to December 31, 1955. pp. 5014, 5098
11. ACREAGE ALLOTMENTS. Received from the S. C. Legislature memorials requesting legislation for cotton acreage allotments for the small farmers in S. C. p. 5099

SENATE

12. TAXES. Agreed to the conference report on H. R. 8780, to relieve farmers from excise taxes on gasoline and special fuels used on the farm for farming purposes. The report resolved a substantive difference between the two Houses on whether a custom operator who used gasoline for cultivating the soil and raising crops was entitled to the gasoline refund. The report provides that such refunds will be payable only to the farmer on whose farm the gasoline is used and not to the custom operator. p. 5071
13. APPROPRIATIONS. The Appropriations Committee concluded hearings on H. R. 10004, the second supplemental appropriation bill for 1956. p. D294

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

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84th-2nd, No. 63

CONTENTS

Accounting.....7	FAO.....14	Legislative program.....16
Acreage allotments...30,31	Farm credit.....41	Livestock.....47
Agricultural	Farm prices.....21	Loans.....5,23
Adjustment Act.....42	Farm program.....1,9,22	Monopolies.....40
Agricultural	Finances.....4	OTC.....2
subcommittees.....28	Flood control.....11,15	Personnel.....3,13,27,32,46
Alaska lands.....37	Food.....6	Postal service.....35
Animal disease.....38	Foreign trade.....2,36	Price supports.....23
Appropriations.....10,48	Forestry.....12	Reclamation.....17,34
CCC.....36,39	GATT.....2	Research.....26
Contracts.....33	Grains.....25	Soil bank.....9,29
Cooperatives.....25	Highways.....8	Surplus commodities.....36
Corn.....31	Housing.....44	Water rights.....20
Cotton.....24,30	Information.....19	Watersheds.....11
Electrification.....18,45	Insect control.....43	

HIGHLIGHTS: House failed to override President's veto of farm bill. Sens. Humphrey and Johnston criticized and others defended President's veto of farm bill. Senate received from this Department proposed bill amending Watershed and Flood Prevention Act. Senate committee reported Johnston Civil Service retirement bill. Senate committee reported bill to release Tongass Forest receipts from escrow. Senate agreed to limit debate on bill to increase U. S. contributions to FAO. House committee ordered reported bill to improve and simplify government accounting methods. Several (continued on last page)

HOUSE

1. FARM PROGRAM. Rep. Cooley and others criticized the President's veto of H. R. 12, the farm bill, and Rep. Halleck defended the President's action. In the vote to override the veto, the question failed of the necessary two-thirds majority (202 for, 211 against). p. 5852
2. FOREIGN TRADE. Began debate on H. Res. 459, to authorize the Ways and Means Committee to make a full study of GATT and the Organization for Trade Cooperation. p. 5877
The Ways and Means Committee reported with amendments H. R. 5550, to provide for U. S. participation in GATT and OTC (H. Rept. 2007). p. 5889
3. PERSONNEL. Both Houses received from the Attorney General a proposed bill "to amend the act of August 26, 1950, relating to the suspension of employment of civilian personnel of the United States in the interest of national security"; to Post Office and Civil Service Committees. pp. 5771, 5889

4. FINANCES. Received from the Treasury Department the annual report on the state of finances of the Government (H. Doc. 243); to the Ways and Means Committee. p. 5889
5. LOANS. The Interior and Insular Affairs Committee reported with amendment H. R. 8385, to provide for the transfer from the Interior Department to the Agriculture Department of authority for the collection and settlement of certain Puerto Rican hurricane relief loan debts (H. Rept. 2009). p. 5889
6. FOOD. The Government Operations Committee issued a report on Food and Clothing Depot Utilization (H. Rept. 2013). p. 5889
7. ACCOUNTING. The Government Operations Committee ordered reported with amendment H. R. 9593, to simplify accounting and facilitate the payment of obligations. p. D358
8. HIGHWAYS. The Public Works Committee ordered reported H. R. 8836, to authorize appropriations for continuing the construction of highways (p. D359). The "Daily Digest" states that the committee "directed Rep. Fallon, chairman of the Subcommittee on Roads, to introduce a clean bill incorporating, as title I, the Federal Aid Highway Act of 1956 (H. R. 8836), and, as title II, the Federal Highway Revenue Act of 1956 (H. R. 9075)." p. D359

SENATE

9. FARM PROGRAM. Sens. Humphrey and Johnston criticized and others defended the President's veto of H. R. 12, the farm bill. pp. 5806, 5830
Sen. Payne inserted a newspaper editorial setting forth the merits of a soil bank program. p. 5789
10. APPROPRIATIONS. Majority Leader Johnson announced that H. R. 9390, the Interior Department appropriation bill, will be taken up on Mon., Apr. 23. p. 5770
11. WATERSHEDS; FLOOD CONTROL. Received from this Department proposed legislation amending the Watershed Development and Flood Prevention Act; to Agriculture and Forestry Committee. (For summary of provisions see Digest No. 62.) p. 5771
12. FORESTRY. The Interior and Insular Affairs Committee reported with amendment S. 2517, to release from escrow the receipts from the sale of timber in the Tongass National Forest (S. Rept. 1778). p. 5773
13. PERSONNEL. The Post Office and Civil Service Committee reported with amendment S. 2875, the Johnston bill to provide increased retirement benefits to retiring Federal employees (S. Rept. 1787). p. 5773
14. FAO. Agreed to limit debate on S. J. Res. 97, which increases U. S. Contributions to FAO, to 2 hours for any amendment, motion, or appeal beginning Thurs. p. 5830
15. FLOOD CONTROL. Passed without amendment S. 3272, to increase and make certain revisions in the general authorization for small flood-control projects. p. 5800

April 19, 1956

2. FARM PROGRAM. Rep. Springer spoke in favor of the soil bank plan as a method of reducing agricultural surpluses and increasing the farmers' income. p. 5965
Rep. Hoeven suggested prompt consideration of soil bank proposals, including his bill, H. R. 10603, which would provide for advance payments to participating farmers. p. 5967
Rep. Knox spoke in support of the President's veto of the farm bill and suggested, that while the soil-bank plan was commendable, other features of H. R. 12, the farm bill, would have worked to the detriment of the small farmer and the livestock and dairy industry. p. 5993
3. APPROPRIATIONS. Received from the President proposed 1957 Budget amendments totaling \$21,415,000 for the Agricultural Research Service, as follows: \$18,915,000 for the construction of animal disease laboratory facilities at Beltsville, Md.; and \$2,500,000 to provide additional funds for gypsy moth control (H. Doc. 383); to the Appropriations Committee. p. 5997
4. INSECT CONTROL. Rep. Albert urged consideration of efforts to control the spotted alfalfa aphid, and inserted a statement from Dr. Shaw, ARS, commenting on present efforts to control this blight. p. 5965
5. FOREIGN TRADE. Rep. Dorn criticized the administration of the Reciprocal Trade Agreements Act, and suggested a limitation of the importation of certain textile and pork products. p. 5992
6. ACCOUNTING. The Government Operations Committee reported with amendment H. R. 9593, to simplify accounting and facilitate the payment of obligations (H. Rept. 2015). ~~p. 5997~~
7. GRAINS. The Ways and Means Committee reported without amendment H. R. 9083, to amend the Internal Revenue Code of 1954 by extending for 2 years (from Dec. 31, 1956) the period for rapid amortization of grain-storage facilities (H. Rept. 2017). p. 5997
8. CONGRESS. Reps. McCormack and Martin, Mass., debated the legislative accomplishments of the Second Sessions of the 83rd and 84th Congresses. p. 5967
9. LEGISLATIVE PROGRAM. The "Daily Digest" states the following as the legislative schedule for next week: Mon., D. C. bills; Tues., the watershed bill; Wed., and balance of the week, the soil bank appropriation bill, the State and Justice Departments appropriation bill for 1957, and the highway construction bill for 1956. p. D370
10. ADJOURNED until Mon., Apr. 23. pp. 5984, 5997

SENATE

11. FORESTRY. Passed without amendment S. 2517, to release from escrow the receipts from the sale of timber in the Tongass National Forest. p. 5945
Sen. Neuberger inserted a speech of the Pres. of the International Woodworkers of America urging greater protection of our timber resources. p. 5898

and harbors against the results of soil erosion in aid of maintaining the navigability of waters and water courses and in aid of flood control; and (5) reestablishment, at as rapid a rate as the Secretary of Agriculture determines to be practicable and in the general public interest, of the ratio between the purchasing power of the net income per person on farms and that of the income per person not on farms that prevailed during the five-year period August 1909-July 1914, inclusive, as determined from statistics available in the United States Department of Agriculture, and the maintenance of such ratio. The powers conferred under sections 7 to 14, inclusive, of this Act shall be used to assist voluntary action calculated to effectuate the purposes specified in this section. Such powers shall not be used to discourage the production of supplies of foods and fibers sufficient to maintain normal domestic human consumption as determined by the Secretary from the records of domestic human consumption in the years 1920 to 1929, inclusive, taking into consideration increased population, quantities of any commodity that were forced into domestic consumption by decline in exports during such period, current trends in domestic consumption and exports of particular commodities, and the quantities of substitutes available for domestic consumption within any general class of food commodities. In carrying out the purposes of this section due regard shall be given to the maintenance of a continuous and stable supply of agricultural commodities adequate to meet consumer demand at prices fair to both producers and consumers.

"The Committee doubts that the soil bank plan will do all that the President claims for it, so far as reducing surpluses is concerned. In its opinion, present surpluses are the result of the failure of the Department of Agriculture to sell commodities in world trade for dollars at competitive bid prices, as authorized and contemplated by the present charter of the Commodity Credit Corporation. To support this view, the Committee need only point to the fact that in recent months practically all commodities which have been offered for sale competitively in world trade through normal channels have been sold for dollars.

"Neither does the Committee believe that such program can ever be a substitute for price or income which farmers must have if they are to share fully in national prosperity. The Committee does believe that such a program, if properly administered, can be of some help to American farmers under present conditions.

"Notwithstanding the failure of the President and the Secretary of Agriculture to use such existing authority, and despite the fact that they have not seen fit to request the necessary funds, the Committee feels that the appropriation proposed in the accompanying bill should be given immediate consideration by Congress. Since the President has vetoed H. R. 12, which would have restored the historical relationship between the farmer's price and the cost of what he must buy, and would have fixed price supports at 90 percent of the farmer's comparative purchasing power during the period 1909-1914, some alternative action must be taken by Congress. The action proposed herein appears to be the most feasible way of providing some immediate relief for the farm problem."

For minority views subsequently received, see pages 9, 10, 11, and 12.

SIMPLIFYING ACCOUNTING, FACILITATING THE PAYMENT OF OBLIGATIONS, AND FOR OTHER PURPOSES

MARCH 19, 1956.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr DAWSON, of Illinois, from the Committee on Government Operations, submitted the following

R E P O R T

[To accompany H. R. 9593]

The Committee on Government Operations, to whom was referred the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes, having considered same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

That, (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate accounts established pursuant to this Act: *Provided further*, That prior thereto the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals made pursuant to subsections (a) and (b) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically, but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess may be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed:

(a) The proviso under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

SEC. 8 The provisions of this Act shall not apply to the appropriations for the District of Columbia.

SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

GENERAL STATEMENT

The bill as amended is designed to improve the accounting procedure of the Government in two major respects: (1) to merge all prior-year obligated balances into one consolidated account for the same general purposes within each agency, and (2) to authorize the agencies of the Government to pay those bills on which there is no dispute but for which the appropriations have lapsed and make them chargeable to the lapsed appropriations in the same manner as bills payable from currently available appropriations. Such bills against lapsed appropriations are presently being processed by the Comptroller General, and paid by the Treasury Department out of its certified claims account.

The terms of the bill and the new procedures it develops have been agreed upon by the Bureau of the Budget, the Comptroller General, and the Treasury Department. Certain reservations of the Department of Defense and the Department of State to the original bill have been satisfied by amendments. Laws now in effect which require the present procedure for handling certified claims will be repealed under the present bill.

The new procedures which this bill will install have been the concern of the Comptroller General for some time. They are also in general accord with two recommendations of the Hoover Commission on the Organization of the Executive Branch of the Government in its report on budget and accounting.

In general, appropriations may not be obligated after the end of the particular fiscal year. Payments or expenditures pursuant to such obligations may generally be made for a period of 2 years following the end of the fiscal year. After that time the appropriations are considered to have expired for expenditure purposes.

As related by the Bureau of the Budget the benefits to be derived from the new procedure are as follows:

1. At the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made. The bill would authorize the Comptroller General to prescribe by regulations the conditions under which such payments may be made without prior review by the General Accounting Office. This would bring about savings by eliminating the duplicate review. Also payments could be made more promptly.

2. The entire balance of each appropriation (both the obligated and the unobligated portion) is now carried in the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months thereafter, thus reducing the carryover of unexpended balances.

3. Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes and thereafter for at least 8 more years on a memorandum basis. In addition, after 2 years, the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment. This bill would bring about a large reduction in the number of accounts to be maintained both by the agencies and by the General Accounting Office. Under its provisions the obligated balances of expired accounts for prior years for the same general purposes would be merged so that usually each current year appropriation account would have a counterpart for prior-year items. For the General Accounting Office alone, it is estimated that about 35,000 accounts could be eliminated.

4. Under present practices payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the certified claims account maintained by the Treasury Department. The result is that such expenditures are reported as expenditures of the Treasury Department although the benefits were received by other agencies. Thus several hundred millions of dollars are budgeted and reported as a cost of the function of General Government when actually a large part of this amount is for major national security and other functions. The bill would correct this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

5. The bill provides that the Comptroller General shall, in connection with his audit responsibilities, make an appraisal of the unliquidated obligations. This emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of the accounts.

CONCLUSIONS

The bill as amended should provide definite and substantial savings to the Government. The Comptroller General now processes from forty to fifty thousand cases a year in which there are no questions of law or fact. His activities are substantially in the nature of a review because the preparation of the claims with agency approval, of course, is done by the department or agency involved. By allowing the agency to pay its own claims in undisputed cases, the Comptroller

General estimates a saving in the General Accounting Office of approximately \$600,000. There may also be some saving as yet undetermined in the Treasury Department.

Simplification in accounting, which the bill will effect, along with a reduction in the number of separate accounts, is also a goal in which the Committee on Government Operations and the Congress have a direct interest.

The bill as amended should cause the reduction of the carryover of unobligated balances in appropriations. The Congress has strived to obtain a clear and realistic picture of the status of appropriated funds at any given time. This measure should help contribute to that end.

SECTION-BY-SECTION ANALYSIS OF THE BILL AS AMENDED

Section 1. Subsection (a) provides that each appropriation available for obligation for a definite time period—annual and multi-year appropriations—shall, after the expiration of its obligational availability, be disposed of as follows: The obligated balance shall be transferred to an appropriation account consisting of the obligated balances of all appropriations granted for the same general purposes. The unobligated balance shall be withdrawn and shall revert to the general fund of the Treasury, unless the appropriation is derived in its entirety from a special or trust fund in which event it shall revert to the fund from which derived. The effect of this is to combine, in a single appropriation account of the agency or subdivision thereof responsible for the liquidation of liabilities, the obligated balances of all appropriations for the same general purposes. For example, the obligated balances of all appropriations for "Salaries and expenses, Forest Service," except the one currently available for obligation, would be merged in one account.

A proviso is included that when an agency head determines it to be necessary in order to effect adjustments and to liquidate obligations, a portion of the remaining balance that had been withdrawn may be restored to the appropriate accounts, but the agency head must make a report to the Director of the Bureau of the Budget *prior to* the restoration in such form as the Director of the Bureau of the Budget may require. This proviso was suggested by the Department of Defense. The Department felt that this was necessary because of the very large adjustments of unliquidated obligations in the Department after the end of the fiscal year. Without the proviso, the Department felt, it may be caught short because of a low estimate and would thereby be required to seek direct relief from Congress in the form of new appropriations to pay obligations already authorized by a previous appropriations which would then be lapsed.

Subsection (b) contemplates that if enacted by June 30, 1956, annual and multiyear appropriations for 1956 and subsequent years will be disposed of not later than September 30 of the fiscal year following that in which the period of obligation expires. Appropriations expiring in 1954 and 1955 would be disposed of not later than September 30, 1956, along with appropriations for the fiscal year 1956. Obligated balances of appropriations for fiscal years prior to 1954 would be merged in the new accounts under the provisions of section 4. (If enacted later than June 30, 1956, the dates used here would be changed accordingly.)

Subsection (c) provides that the amount transferred to the appropriation account shall not exceed the net obligated balances as shown on reports made under section 1311 of the Supplemental Appropriation Act, 1955, and that receipts authorized to be credited to an appropriation which are not received until after such appropriation has expired for obligation will be credited to the appropriation account to which the obligated balance has been, or will be, transferred. Discretionary authority is conferred on the General Accounting Office to deposit collections made for other agencies into miscellaneous receipts.

Subsection (d) contemplates on a permanent basis that transfers and withdrawals made not later than September 30 of the fiscal year following the fiscal year in which the appropriations expire for obligation *will be accounted for and reported* as of the fiscal year in which the appropriations expire for obligation. Appropriations which have expired for obligation prior to the time this bill becomes law but which are still available for expenditure will be transferred and withdrawn as of the fiscal year (1956) in which the bill is approved.

Section 2. This section authorizes the appropriation accounts established pursuant to the act to be used for payment of obligations chargeable against any of the appropriations from which such accounts were derived. The accounts are to be available without fiscal year limitation and, subject to regulations to be prescribed by the Comptroller General of the United States, payment of the obligations may be made through regular disbursing channels without prior action by the General Accounting Office. It will not be necessary to relate payments from the merged accounts to the specific balances of appropriations transferred to the account. *It is further provided, however, that nothing in the act shall be construed to relieve the Comptroller General of his duty to render decisions upon requests made pursuant to law, nor to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts. The agencies will be enabled under the act to pay claims which have heretofore been settled by the General Accounting Office solely because they were payable from lapsed appropriations. The subsection will otherwise preserve the jurisdiction of the General Accounting Office, and the Comptroller General will be able to require that any particular claim or classes of claims, such as doubtful claims or claims received in the administrative office more than a specific number of years after the claim first accrued, be paid only after settlement in the General Accounting Office whenever he deems such action desirable.*

Section 3. Subsection (a) provides for periodic reviews of the accounts established pursuant to the act by the agencies concerned. When such reviews disclose that the undisbursed balance exceeds the obligated balance, the amount of the excess shall revert, as the case may be, to the general, special, or trust fund from which derived, but if it is found on review that the obligated balance exceeds the undisbursed balance, the amount necessary to supply the deficiency may be transferred from the account currently available for the same general purposes. Such reviews, together with the transfers and withdrawals found to be necessary, shall be accomplished at least annually at the end of the year. Action taken pursuant to reviews made as of the close of the fiscal year must be completed by September 30 of the following fiscal year and the transfers or withdrawals accounted for and reported as of the close of the fiscal year to which the year end review pertains. Transfers and withdrawals made pursuant to

reviews made at other than the close of the fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

Subsection (b) authorizes transfers from the appropriation currently available for the same general purposes whenever there are insufficient funds in the account to *pay* an obligation because of the failure to collect receivables, but the amount may be returned to the current appropriation when the receivables are collected. This provision is made in order that an agency may promptly pay obligations, even if the account balance is temporarily low pending the collection of receivables. Action under this subsection would be based upon a comparison of the undisbursed balances with the amount of vouchers ready for payment, and differs from subsection (a), which contemplates transfer action after a comparison of undisbursed balances with net obligated balances (obligations outstanding less receivables).

Subsection (c) contemplates reviews by the Comptroller General of operations under the act. Such reviews will include appraisal of the unliquidated obligations under the appropriation accounts established thereunder and the Comptroller General's findings will be reported to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget. Within 30 days following receipt of the Comptroller General's report, the agency head is required to accomplish the transfers or withdrawals which the report indicates are necessary, if such transfers or withdrawals have not already been made.

Section 4. This section provides that within the fiscal year following that in which the act becomes effective, and under rules and regulations prescribed by the Comptroller General, the unexpended balance of the appropriation account for payment of certified claims established pursuant to section 2 of the act of July 6, 1949 (31 U. S. C. 712b), shall be disposed of in the same manner as the balances of appropriations available for obligation for a definite period of time. This will permit payment, under the procedures established by this act, and from the accounts established under this act, of claims arising under appropriations for fiscal years *prior to 1954*, the first year to be covered by this act.

Section 5. This section authorizes the transfer of amounts pursuant to section 1 of the act from nonrecurring or discontinued fiscal year appropriations to one or more appropriation accounts at the discretion of the head of the agency concerned. An example of the type of annual appropriation covered by this section would be "Salaries and expenses, Civil Aeronautics Administration" for the fiscal year 1955, which was eliminated in the fiscal year 1956 as a result of realinement of the agency's appropriation structure. It is contemplated that such mergers would follow generally the budget presentation: that is, where a discontinued title is merged with a new title in the budget, the account would similarly be merged; where a discontinued title is merged with another discontinued title in the budget, the accounting practice would follow accordingly.

Section 6. This section authorizes the withdrawal or reversion, as the case may be, of unobligated balances of no-year appropriations whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled or, in any event, whenever disbursements have not been made against

the appropriation for 2 consecutive fiscal years. Authority is granted for the restoration of any amounts heretofore or hereafter withdrawn for the payment of obligations and the settlement of accounts, but it is contemplated that restorations would not be needed frequently.

Section 7. This section provides for the repeal of certain provisions of law which no longer will be necessary because of the enactment of this act. These are:

(a) The proviso under the heading "Payment of certified claims" in the act of April 25, 1945 (59 Stat. 90, 31 U. S. C. 690). This provides that collections otherwise to be deposited to the credit of a lapsed appropriation shall be deposited into the Treasury as miscellaneous receipts. Under the procedure proposed in the bill, such collections will be deposited to the credit of the appropriation account which has received the balance of the appropriation to which the collection would otherwise be credited.

(b) Section 2 of the act of July 6, 1949 (63 Stat. 407, 31 U. S. C. 712b). This section established the consolidated appropriation account for "Payment of certified claims." The consolidated appropriation accounts established pursuant to this act will be available for payment of claims for which this account was established. However, in order to permit final settlement of claims now in process under existing procedures, this repeal would not be effective until June 30, 1957. On or before that date, the balance in the existing consolidated account will be transferred to the accounts established under this act.

(c) The paragraph under the heading "Payment of certified claims" in the act of June 30, 1949 (63 Stat. 358, 31 U. S. C. 712c). This paragraph provides for permanent appropriation for payment of claims (not to exceed \$500 in any one case) which would otherwise be chargeable to lapsed appropriations. The need for this appropriation was eliminated by the act of July 6, 1949 (63 Stat. 407, 31 U. S. C. 712b), and the appropriation will not be used under the procedures established by this act.

(d) Section 5 of the act of March 3, 1875 (18 Stat. 418, 31 U. S. C. 713a). This provision authorizes the Secretary of the Treasury to make certain entries on the books of the Department to effect settlement of accounts of disbursing officers involving appropriations carried to the "surplus fund." The accounts established by this act will hereafter be available without fiscal year limitation for such purposes.

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715). This provision permits balances of appropriations which have remained on the books of the Treasury without being drawn against for 2 years to be closed if it appears that the balance will not be required in the settlement of any accounts pending in the General Accounting Office. This section is superseded by section 6 of this act.

(f) This subsection, effective June 30, 1957, repeals any provision of law making an appropriation available for expenditure for any period beyond that for which it is available for obligation, except those contained in appropriation acts for the fiscal years 1956 and 1957. Thus, in the absence of any exceptions in the appropriation acts for the fiscal years 1956 and 1957 or in provisions of law hereafter enacted, all appropriations available for obligation for a definite period of time after June 30, 1957, shall expire for expenditure purposes at the same

time they expire for obligation purposes and subsequent expenditures will be made from the accounts established pursuant to this act.

Section 8. This section excludes the District of Columbia from the provisions of this act.

Section 9. This section authorizes the inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and the fixing of the period for which such appropriation or appropriations shall remain available for expenditure.

REPORT OF THE COMPTROLLER GENERAL ON H. R. 9593

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, March 8, 1956.

HON. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives.*

DEAR MR. CHAIRMAN: Your letter of March 1, 1956, acknowledged March 2, requests a report on H. R. 9593, 84th Congress.

The problems involved in the liquidation of prior-year obligations have been of considerable concern to us for some time. The Surplus Fund-Certified Claims Act of July 6, 1949 (31 U. S. C. 712 (b)), represented a substantial step forward in procedures for the payment of stale obligations. By making lapsed appropriations available on a continuing basis for the payment of outstanding obligations, it eliminated the formerly existing necessity for budgetary review and congressional approval to restore funds which already had been appropriated so that they could be used for payment of legal liabilities. It speeded up payment of creditors, thereby promoting improved relations with the public, and it effected substantial economies by reducing correspondence concerning pending claims. However, this legislation also has certain deficiencies. These include the necessity for the maintenance in the General Accounting Office of detailed ledgers of account for the lapsed appropriations transferred to the "Payment of certified claims" account and the substantial utilization of the services of our professional claims adjudicators and supporting personnel in the processing of transactions under that account. Also, since the "Payment of certified claims" account is classified as a Treasury Department appropriation account, all liquidations of outstanding obligations against lapsed appropriations are recorded on the books of the Government as expenditures of that Department, rather than as expenditures of the agencies benefiting therefrom. This accounting treatment overstates expenditures of the Treasury Department and correspondingly understates expenditures of the agencies which incurred the obligations.

In addition, developments under the joint accounting program, as authorized by the Budget and Accounting Procedures Act of 1950, have materially changed earlier concepts as to the responsibilities of the several agencies of the Government, including those of the General Accounting Office. Prime responsibility for establishing and maintaining adequate systems of accounting and internal control has been vested in the agencies, in accordance with broad principles, standards, and related requirements prescribed by us, and with the

further responsibility vested in us to audit financial transactions of the agencies. Improvements in agency accounting following recognition of these new concepts have substantially eliminated the need for advance approval by the General Accounting Office of many types of payments, and as a result of decentralization of agency accounting, centralized payment procedures such as those contemplated by the Certified Claims Act have become cumbersome and unnecessary. Experience has conclusively established that obligations liquidated from the "Payment of certified claims" account largely represent routine transactions.

We thus believe that the liquidation of prior-year obligations can be handled under regular disbursement and postaudit procedures with substantial decreases in cost and with no sacrifice of appropriate safeguards, as proposed by H. R. 9593. This proposed legislation also would remedy the deficiencies under existing law by eliminating the necessity for the maintenance in the General Accounting Office of numerous detailed ledgers of account for all prior-year lapsed appropriations and by permitting substantially all liquidation of outstanding obligations to be recorded on the books of the Government as expenditures of the agencies which incurred the obligations and benefited therefrom.

This proposed legislation substantially would carry out recommendations Nos. 17 and 18 of the report to the Congress on budget and accounting of the Hoover Commission. These recommendations were to the effect that all prior-year obligations under the same appropriation or fund be merged with the current appropriation, thereby having only one account under each appropriation or fund. We agree with this concept as to appropriations made on an annual accrued expenditure basis in accordance with recommendation No. 7 of the Hoover Commission. However, as long as appropriations continue to be stated on an obligation basis, we strongly recommend that prior year obligated balances be merged into one consolidated account as proposed by H. R. 9593 and not commingled with current appropriations. There thus would be no opportunity to use amounts not needed to liquidate prior-year obligations for current expenses.

Particular attention is invited to sections 1 (c) and 6 of the bill. Under existing law, 31 United States Code 690, all collections which would otherwise be creditable as appropriation repayments must be deposited into the Treasury as miscellaneous receipts in the event they are not received until the applicable appropriation has lapsed. The effect of section 1 (c), together with the repeal of 31 United States Code 690 as proposed by section 7 (a) of the proposal, is to remove this requirement, it being our feeling, which also is shared by the Bureau of the Budget and the Treasury Department, that such recordation of collections—many of which represent nothing more than interagency reimbursements—has the undesirable effect of overstating Government income and disbursements. In the debt collection activities of the General Accounting Office, however, owing to such factors as the expense involved in identifying applicable appropriations, it is impracticable in many cases for us to apply all collections as appropriation repayments. In such circumstances, we consider it desirable that we be given the option of depositing collections as miscellaneous receipts as proposed by section 1 (c).

As to section 6, it has been our experience that agencies rarely, if ever, initiate action to close out no-year appropriations with the result that such accounts—often with trifling balances—remain open on the Government's books long after the projects for which they were provided have been completed. Under section 3691, Revised Statutes, as amended, 31 United States Code 715, which the draft proposes to repeal, the Secretary of the Treasury has the authority to include balances in such accounts on surplus warrants without agency approval, but the archaic requirements of such section of the Revised Statutes for certifications by this Office that the balances are not needed for the payment of obligations and the settlement of accounts have acted as deterrents to the effective implementation of the provision. Section 6 will permit the orderly accomplishment of the purposes contemplated by the outmoded and ineffectual section 3691 and is believed desirable.

We believe that the proposed legislation is sound in principle and will materially advance the cause of accounting improvement in the Government. We, therefore, strongly urge that favorable consideration be given to this proposal.

A more detailed history of this proposal is contained in our letter of December 20, 1955, B-52215, B-65311, B-118094, to you.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

PROVISIONS OF SECTION 1311 OF THE SUPPLEMENTAL APPROPRIATION ACT OF 1955

(Sec. 1311 (b) of 68 Stat. 830; 31 U. S. C. 200 (b))

SEC. 1311. (a) After the date of enactment hereof no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of—

(1) a binding agreement in writing between the parties thereto, including Government agencies, in a manner and form and for a purpose authorized by law, executed before the expiration of the period of availability for obligation of the appropriation or fund concerned for specific goods to be delivered, real property to be purchased or leased, or work or services to be performed; or

(2) a valid loan agreement, showing the amount of the loan to be made and the terms of repayment thereof; or

(3) an order required by law to be placed with a Government agency; or

(4) an order issued pursuant to a law authorizing purchases without advertising when necessitated by public exigency or for perishable subsistence supplies or within specific monetary limitations; or

(5) a grant or subsidy payable (i) from appropriations made for payment of or contributions toward, sums required to be paid in specific amounts fixed by law

or in accord with formulae prescribed by law, or (ii) pursuant to agreement authorized by, or plans approved in accord with and authorized by, law; or

(6) a liability which may result from pending litigation brought under authority of law; or

(7) employment or services of persons or expenses of travel in accord with law, and services performed by public utilities; or

(8) any other legal liability of the United States against an appropriation or fund legally available therefor.

(b) Not later than September 30 of each year, the head of each Federal agency shall report, as to each appropriation or fund under the control of such agency, the amount thereof remaining obligated but unexpended and the amount thereof remaining unobligated on June 30 of such year and copies of such report shall be forwarded by him to the chairman of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget: *Provided*, That such report for the fiscal year ending June 30, 1954, shall be made not later than December 31, 1954, and shall include only such obligations as could have been recorded under the provisions of subsection (a) hereof.

(c) Each report made pursuant to subsection (b) shall be supported by certifications of the officials designated by the head of the agency, and such certifications shall be supported by records evidencing the amounts which are reported therein as having been obligated. Such certifications and records shall be retained in the agency in such form as to facilitate audit and reconciliation for such period as may be necessary for such purposes. The officials designated by the head of the agency to make certifications may not redelegate the responsibility.

(d) No appropriation or fund which is limited for obligation purposes to a definite period of time shall be available for expenditure after the expiration of such period except for liquidation of amounts obligated in accord with subsection (a) hereof; but no such appropriation or fund shall remain available for expenditure for any period beyond that otherwise authorized by law.

(e) Any statement of obligation of funds furnished by any agency of the Government to the Congress or any committee thereof shall include only such amounts as may be valid obligations as defined in subsection (a) hereof.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, existing law in which no change is proposed is shown in roman):

PROVISO UNDER THE HEADING "PAYMENT OF CERTIFIED CLAIMS"
IN THE ACT OF APRIL 25, 1945 (31 U. S. C., SEC. 690)

BUREAU OF ACCOUNTS

Payment of certified claims: There is hereby appropriated such sum as may be necessary to enable the Secretary of the Treasury to pay claims (not to exceed \$500 in any case) which may be certified during the fiscal years 1945 and 1946 by the Comptroller General of the United States to be lawfully due, within the limits of, and chargeable against the balances of the respective appropriations heretofore made which, after remaining unexpended, have been carried to the surplus fund pursuant to section 5 of the Act of June 20, 1874 (31 U. S. C. 713) **[** *Provided*, That hereafter any collection which otherwise would be for depositing to the credit of an appropriation where such appropriation has lapsed and the balance reverted to the surplus fund shall be deposited for covering into the general fund of the Treasury as miscellaneous receipts **]**.

Contingent expenses, public moneys: For an additional amount for "Contingent expenses, public moneys", fiscal year 1945, including the objects specified under this head in the Treasury Department Appropriation Act, 1945, \$90,000.

SECTION 2 OF THE ACT OF JULY 6, 1949 (31 U. S. C., SEC. 712B)

[SEC. 2. Unless a longer period of availability for expenditure is specifically provided in an appropriation or other law, on July 1 in each year the unexpended balances of all appropriations which shall have remained upon the books of the Government for two fiscal years following the fiscal year or years for which appropriated shall lapse and the Secretary of the Treasury shall cause such balances to be transferred to a consolidated appropriation account, to be known as "Payment of certified claims", and such funds shall remain available until expended for the payment of claims, within the limits of and chargeable to the respective balances of any lapsed appropriations, which may be certified by the Comptroller General of the United States to be lawfully due: *Provided*, That this section shall not apply to permanent specific appropriations or appropriations for rivers and harbors, lighthouses, or public buildings (which shall continue available until otherwise ordered by the Congress) or to appropriations for the Post Office Department or the postal service: *Provided further*, That on July 1 of each year, all funds in the appropriation account "Payment of certified claims", certified by the Comptroller General of the United States as not required for the payment of claims thereunder, shall be carried to the surplus fund of the Treasury. **]**

PARAGRAPH UNDER THE HEADING "PAYMENT OF CERTIFIED CLAIMS"
IN THE ACT OF JUNE 30, 1949 (31 U. S. C., SEC. 712c)

PAYMENT OF CERTIFIED CLAIMS

[For payment of claims (not to exceed \$500 in any case) which may be certified by the Comptroller General of the United States to be

within the limits of, and chargeable against the balances of the respective appropriations which, after remaining unexpended, have been carried to the surplus fund, such amounts as hereafter may be necessary.】

SECTION 5 OF THE ACT OF MARCH 3, 1875 (31 U. S. C., SEC. 713a)

【SEC. 5. That whenever it may be necessary in the settlement of the accounts of disbursing officers of the Government for expenditures already made in pursuance of law, to use appropriations carried to the surplus fund under section five of the act of June twentieth, eighteen hundred and seventy-four the Secretary of the Treasury is hereby authorized to make the necessary entries on the books of the Department to effect such settlements, *Provided*, That such entries shall not involve the expenditure of any moneys from the Treasury.】

SECTION 3691 OF THE REVISED STATUTES OF THE UNITED STATES
(31 U. S. C., SEC. 715)

【SEC. 3691. All balances of appropriations which shall have remained on the books of the Treasury, without being drawn against in the settlement of accounts, for two years from the date of the last appropriation made by law, shall be reported by the Secretary of the Treasury to the Auditor of the Treasury, whose duty it is to settle accounts thereunder, and the Auditor shall examine the books of his Office, and certify to the Secretary whether such balances will be required in the settlement of any accounts pending in his Office; and if it appears that such balances will not be required for this purpose, then the Secretary may include such balances in his surplus-fund warrant, whether the head of the proper Department shall have certified that it may be carried into the general Treasury or not. But no appropriation for the payment of the interest or principal of the public debt, or to which a longer duration is given by law, shall be thus treated.】

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84TH CONGRESS
2D SESSION

H. R. 9593

[Report No. 2015]

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 28, 1956

Mr. DAWSON of Illinois introduced the following bill; which was referred to the Committee on Government Operations

APRIL 19, 1956

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To simplify accounting, facilitate the payment of obligations,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 ~~That, except as otherwise provided by law, (a) the account~~
4 ~~for each appropriation available for obligation for a definite~~
5 ~~period of time shall, upon the expiration of such period, be~~
6 ~~closed as follows:~~

7 ~~(1) The obligated balancee shall be transferred to an~~
8 ~~appropriation account of the activity responsible for the~~
9 ~~liquidation of the obligations, in which account shall be~~
10 ~~merged the amounts so transferred from all appropriation~~
11 ~~accounts for the same general purposes; and~~

1 ~~(2)~~ The remaining balance shall be withdrawn and, if
 2 the appropriation was derived in whole or in part from the
 3 general fund, shall revert to such fund, but if the appropria-
 4 tion was derived solely from a special or trust fund, shall
 5 revert, unless otherwise provided by law, to the fund from
 6 which derived.

7 ~~(b)~~ The transfers and withdrawals required by subsec-
 8 tion ~~(a)~~ of this section shall be made—

9 ~~(1)~~ not later than September 30 of the fiscal year
 10 immediately following the fiscal year in which the period
 11 of availability for obligation expires, in the case of an
 12 appropriation available both for obligation and dis-
 13 bursement on or after the date of approval of this Act;
 14 or

15 ~~(2)~~ not later than September 30 of the fiscal year
 16 immediately following the fiscal year in which this Act
 17 is approved, in the case of an appropriation which, on
 18 the date of approval of this Act, is available only for
 19 disbursement.

20 ~~(c)~~ For the purposes of this Act, the obligated balance
 21 of an appropriation account shall be the amount of unliqui-
 22 dated obligations applicable to such appropriation less the
 23 amount collectible as repayments to the appropriation as of
 24 the close of the fiscal year as reported pursuant to section
 25 1341 ~~(b)~~ of the Supplemental Appropriation Act, 1955 ~~(68~~

1 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized
2 to be credited to an appropriation but not received until
3 after the close of the fiscal year in which such appropria-
4 tion expires for obligation shall, unless otherwise authorized
5 by law, be credited to the appropriation account into which
6 the obligated balance has been or will be transferred, pur-
7 suant to subsection (a) (1), except that collections made by
8 the General Accounting Office for other Government agen-
9 cies may be deposited into the Treasury as miscellaneous
10 receipts.

11 (d) The transfers and withdrawals required pursuant
12 to subsection (a) of this section shall be accounted for and
13 reported as of the fiscal year in which the appropriations
14 concerned expire for obligation, except that such transfers
15 of appropriations described in subsection (b) (2) of this
16 section shall be accounted for and reported as of the fiscal
17 year in which this Act is approved.

18 SEC. 2. Each appropriation account established pursuant
19 to this Act shall be accounted for as one fund and shall be
20 available without fiscal year limitation for payment of obli-
21 gations chargeable against any of the appropriations from
22 which such account was derived. Subject to regulations
23 to be prescribed by the Comptroller General of the United
24 States, payment of such obligations may be made without
25 prior action by the General Accounting Office, but nothing

1 contained in this Act shall be construed to relieve the Comp-
2 troller General of the United States of his duty to render
3 decisions upon requests made pursuant to law or to abridge
4 the existing authority of the General Accounting Office to
5 settle and adjust claims, demands, and accounts.

6 SEC. 3. (a) Appropriation accounts established pur-
7 suant to this Act shall be reviewed periodically, but at least
8 once each fiscal year, by each activity responsible for the
9 liquidation of the obligations chargeable to such accounts.
10 If the undisbursed balance in any account exceeds the ob-
11 ligated balance pertaining thereto, the amount of the excess
12 shall be withdrawn in the manner provided by section
13 1 (a) (2) of this Act; but if the obligated balance exceeds
14 the undisbursed balance, the amount of the excess shall
15 be transferred to such account from the appropriation cur-
16 rently available for the same general purposes. A review
17 shall be made as of the close of each fiscal year and the
18 transfers or withdrawals required by this section accom-
19 plished not later than September 30 of the following fiscal
20 year, but the transactions shall be accounted for and re-
21 ported as of the close of the fiscal year to which such review
22 pertains. A review made as of any other date for which
23 transfers or withdrawals are accomplished after September
24 30 in any fiscal year shall be accounted for and reported
25 as transactions of the fiscal year in which accomplished.

1 (b) Whenever a payment chargeable to an appropria-
2 tion account established pursuant to this Act would exceed
3 the undisbursed balance of such account, the amount of the
4 deficiency may be transferred to such account from the
5 appropriation currently available for the same general pur-
6 poses. Where such deficiency is caused by the failure to
7 collect repayments to appropriations merged with the appro-
8 priation account established pursuant to this Act, the amount
9 of the deficiency may be returned to such current appro-
10 priation if the repayments are subsequently collected during
11 the same fiscal year.

12 (c) In connection with his audit responsibilities, the
13 Comptroller General of the United States shall report to the
14 head of the agency concerned, to the Secretary of the Treas-
15 ury, and to the Director of the Bureau of the Budget, respect-
16 ing operations under this Act, including an appraisal of the
17 unliquidated obligations under the appropriation accounts
18 established by this Act. Within thirty days after receipt
19 of such report, the agency concerned shall accomplish any
20 actions required by subsection (a) of this section which such
21 report shows to be necessary.

22 SEC. 4. During the fiscal year following the fiscal year
23 in which this Act becomes effective, and under rules and
24 regulations to be prescribed by the Comptroller General
25 of the United States, the undisbursed balance of the appro-

1 priation account for payment of certified claims established
2 pursuant to section 2 of the Act of July 6, 1949 (63 Stat.
3 407; 31 U. S. C. 712b), shall be closed in the manner pro-
4 vided in section 1 (a) of this Act.

5 SEC. 5. The obligated balances of appropriations made
6 available for obligation for definite periods of time under dis-
7 continued appropriation heads may be merged in the appro-
8 priation accounts provided for by section 1 hereof, or in one
9 or more other accounts to be established pursuant to this
10 Act for discontinued appropriations of the activity currently
11 responsible for the liquidation of the obligations.

12 SEC. 6. The unobligated balances of appropriations which
13 are not limited to a definite period of time shall be withdrawn
14 in the manner provided in section 1 (a) (2) of this Act
15 whenever the head of the agency concerned shall determine
16 that the purpose for which the appropriation was made has
17 been fulfilled or will not be undertaken or continued; or, in
18 any event, whenever disbursements have not been made
19 against the appropriation for two full consecutive fiscal years:
20 *Provided*, That amounts of appropriations not limited to a
21 definite period of time which are withdrawn pursuant to this
22 section or where heretofore withdrawn from the appropriation
23 account by administrative action may be restored to the
24 applicable appropriation account for the payment of obliga-
25 tions and for the settlement of accounts.

1 SEC. 7. The following provisions of law are hereby
2 repealed:

3 (a) The proviso under the heading "~~PAYMENT OF CER-~~
4 ~~TIFIED CLAIMS~~" in the Act of April 25, 1945 (~~59 Stat. 90;~~
5 ~~31 U. S. C. 690~~);

6 (b) Section 2 of the Act of July 6, 1949 (~~63 Stat. 407;~~
7 ~~31 U. S. C. 712b~~), but the repeal of this section shall not
8 be effective until June 30, 1957;

9 (c) The paragraph under the heading "~~PAYMENT OF~~
10 ~~CERTIFIED CLAIMS~~" in the Act of June 30, 1949 (~~63 Stat.~~
11 ~~358; 31 U. S. C. 712e~~);

12 (d) Section 5 of the Act of March 3, 1875 (~~18 Stat.~~
13 ~~418; 31 U. S. C. 713a~~); and

14 (e) Section 3691 of the Revised Statutes, as amended
15 (~~31 U. S. C. 715~~).

16 SEC. 8. The provisions of this Act shall not apply to the
17 appropriations for the District of Columbia.

18 *That (a) the account for each appropriation available for*
19 *obligation for a definite period of time shall, upon the ex-*
20 *piration of such period, be closed as follows:*

21 (1) *The obligated balance shall be transferred to an*
22 *appropriation account of the agency or subdivision thereof*
23 *responsible for the liquidation of the obligations, in which*
24 *account shall be merged the amounts so transferred from*

1 all appropriation accounts for the same general purposes;
2 and

3 (2) The remaining balance shall be withdrawn and, if
4 the appropriation was derived in whole or in part from the
5 general fund, shall revert to such fund, but if the appropria-
6 tion was derived solely from a special or trust fund, shall
7 revert, unless otherwise provided by law, to the fund from
8 which derived: Provided, That when it is determined nec-
9 essary by the head of the agency concerned that a portion of
10 the remaining balance withdrawn is required to liquidate
11 obligations and effect adjustments, such portion of the remain-
12 ing balance may be restored to the appropriate accounts es-
13 tablished pursuant to this Act: Provided further, That prior
14 thereto the head of the agency concerned shall make such
15 report with respect to each such restoration as the Director of
16 the Bureau of the Budget may require.

17 (b) The transfers and withdrawals required by subsec-
18 tion (a) of this section shall be made—

19 (1) not later than September 30 of the fiscal year
20 immediately following the fiscal year in which the period
21 of availability for obligation expires, in the case of an
22 appropriation available both for obligation and dis-
23 bursement on or after the date of approval of this Act;
24 or

25 (2) not later than September 30 of the fiscal year

1 immediately following the fiscal year in which this Act
2 is approved, in the case of an appropriation, which, on
3 the date of approval of this Act, is available only for
4 disbursement.

5 (c) For the purposes of this Act, the obligated balance
6 of an appropriation account as of the close of the fiscal year
7 shall be the amount of unliquidated obligations applicable to
8 such appropriation less the amount collectible as repayments
9 to the appropriation as reported pursuant to section 1311

10 (b) of the Supplemental Appropriation Act, 1955 (68 Stat.
11 830; 31 U. S. C. 200 (b)). Collections authorized to be
12 credited to an appropriation but not received until after the
13 close of the fiscal year in which such appropriation expires
14 for obligation shall, unless otherwise authorized by law, be
15 credited to the appropriation account into which the obligated
16 balance has been or will be transferred, pursuant to sub-
17 section (a) (1), except that collections made by the General
18 Accounting Office for other Government agencies may be de-
19 posited into the Treasury as miscellaneous receipts.

20 (d) The transfers and withdrawals made pursuant to
21 subsections (a) and (b) of this section shall be accounted for
22 and reported as of the fiscal year in which the appropria-
23 tions concerned expire for obligation, except that such trans-
24 fers of appropriations described in subsection (b) (2) of this

1 section shall be accounted for and reported as of the fiscal
2 year in which this Act is approved.

3 *SEC. 2. Each appropriation account established pursu-*
4 *ant to this Act shall be accounted for as one fund and shall*
5 *be available without fiscal year limitation for payment of obli-*
6 *gations chargeable against any of the appropriations from*
7 *which such account was derived. Subject to regulations to be*
8 *prescribed by the Comptroller General of the United States,*
9 *payment of such obligations may be made without prior ac-*
10 *tion by the General Accounting Office, but nothing contained*
11 *in this Act shall be construed to relieve the Comptroller Gen-*
12 *eral of the United States of his duty to render decisions upon*
13 *requests made pursuant to law or to abridge the existing au-*
14 *thority of the General Accounting Office to settle and adjust*
15 *claims, demands, and accounts.*

16 *SEC. 3. (a) Appropriation accounts established pursu-*
17 *ant to this Act shall be reviewed periodically, but at least once*
18 *each fiscal year, by each agency concerned. If the undis-*
19 *bursed balance in any account exceeds the obligated balance*
20 *pertaining thereto, the amount of the excess shall be with-*
21 *drawn in the manner provided by section 1 (a) (2) of this*
22 *Act; but if the obligated balance exceeds the undisbursed bal-*
23 *ance, the amount of the excess may be transferred to such*
24 *account from the appropriation currently available for the*
25 *same general purposes. A review shall be made as of the*

1 close of each fiscal year and the transfers or withdrawals re-
2 quired by this section accomplished not later than September
3 30 of the following fiscal year, but the transactions shall be
4 accounted for and reported as of the close of the fiscal year
5 to which such review pertains. A review made as of any
6 other date for which transfers or withdrawals are accom-
7 plished after September 30 in any fiscal year shall be ac-
8 counted for and reported as transactions of the fiscal year in
9 which accomplished.

10 (b) Whenever a payment chargeable to an appropria-
11 tion account established pursuant to this Act would exceed the
12 undisbursed balance of such account, the amount of the defi-
13 ciency may be transferred to such account from the ap-
14 propriation currently available for the same general pur-
15 poses. Where such deficiency is caused by the failure to col-
16 lect repayments to appropriations merged with the appro-
17 priation account established pursuant to this Act, the amount
18 of the deficiency may be returned to such current appropria-
19 tion if the repayments are subsequently collected during the
20 same fiscal year.

21 (c) In connection with his audit responsibilities, the
22 Comptroller General of the United States shall report to the
23 head of the agency concerned, to the Secretary of the Treas-
24 ury, and to the Director of the Bureau of the Budget, respect-
25 ing operations under this Act, including an appraisal of the

1 *unliquidated obligations under the appropriation accounts es-*
2 *tablished by this Act. Within thirty days after receipt of*
3 *such report, the agency concerned shall accomplish any ac-*
4 *tions required by subsection (a) of this section which such*
5 *report shows to be necessary.*

6 *SEC. 4. During the fiscal year following the fiscal year*
7 *in which this Act becomes effective, and under rules and*
8 *regulations to be prescribed by the Comptroller General of*
9 *the United States, the undisbursed balance of the appropria-*
10 *tion account for payment of certified claims established pur-*
11 *suant to section 2 of the Act of July 6, 1949 (63 Stat.*
12 *407; 31 U. S. C. 712b), shall be closed in the manner pro-*
13 *vided in section 1 (a) of this Act.*

14 *SEC. 5. The obligated balances of appropriations made*
15 *available for obligation for definite periods of time under*
16 *discontinued appropriation heads may be merged in the appro-*
17 *priation accounts provided for by section 1 hereof, or in one*
18 *or more other accounts to be established pursuant to this Act*
19 *for discontinued appropriations of the agency or subdivision*
20 *thereof currently responsible for the liquidation of the obli-*
21 *gations.*

22 *SEC. 6. The unobligated balances of appropriations which*
23 *are not limited to a definite period of time shall be withdrawn*
24 *in the manner provided in section 1 (a) (2) of this Act*
25 *whenever the head of the agency concerned shall determine*

1 that the purposes for which the appropriation was made has
2 been fulfilled; or in any event, whenever disbursements have
3 not been made against the appropriation for two full con-
4 secutive fiscal years: Provided, That amounts of appropria-
5 tions not limited to a definite period of time which are with-
6 drawn pursuant to this section or were heretofore withdrawn
7 from the appropriation account by administrative action may
8 be restored to the applicable appropriation account for the
9 payment of obligations and for the settlement of accounts.

10 SEC. 7. The following provisions of law are hereby
11 repealed:

12 (a) The proviso under the heading "PAYMENT OF CER-
13 TIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90;
14 31 U. S. C. 690);

15 (b) Section 2 of the Act of July 6, 1949 (63 Stat. 407;
16 31 U. S. C. 712b), but the repeal of this section shall not
17 be effective until June 30, 1957;

18 (c) The paragraph under the heading "PAYMENT OF
19 CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat.
20 358; 31 U. S. C. 712c);

21 (d) Section 5 of the Act of March 3, 1875 (18 Stat.
22 418; 31 U. S. C. 713a); and

23 (e) Section 3691 of the Revised Statutes, as amended
24 (31 U. S. C. 715).

25 (f) Any provisions (except those contained in appropria-

1 *tion Acts for the fiscal years 1956 and 1957) permitting an*
2 *appropriation to remain available for expenditure for any*
3 *period beyond that for which it is available for obligation, but*
4 *this subsection shall not be effective until June 30, 1957.*

5 *SEC. 8. The provisions of this Act shall not apply to the*
6 *appropriations for the District of Columbia.*

7 *SEC. 9. The inclusion in appropriation Acts of provi-*
8 *sions excepting any appropriation or appropriations from the*
9 *operation of the provisions of this Act and fixing the period*
10 *for which such appropriation or appropriations shall remain*
11 *available for expenditure is hereby authorized.*

84TH CONGRESS
2^D Session

H. R. 9593

[Report No. 2015]

A BILL

To simplify accounting, facilitate the payment of obligations, and for other purposes.

By Mr. Dawson of Illinois

FEBRUARY 28, 1956

Referred to the Committee on Government Operations

APRIL 19, 1956

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued May 8, 1956
For actions of May 7, 1956
84th-2nd. No. 74

CONTENTS

Accounting.....7,23,45,47	Flood control.....29	Property.....40,44
Adjournment.....26	Foreign aid.....4,20,31	Reclamation.....6,51
Alaska.....36	Foreign trade.....12,32	Records management.....9
Appropriations.....50	Forestry.....2,21,35,41	Reports.....37
Budgeting.....45,47	Freight rates.....14	Research.....43
Cattle.....14	Highways.....14	Roads.....13,21
CCC borrowing power.....3	Hoover Commission.....17,33	School milk.....25
Commodity exchanges.....10	Imports.....39	Soil conservation.....35
Cotton.....12,30	Information.....53	Soil bank.....11,28
Disaster relief.....37	Lands.....5,36	Surplus commodities.....11,39
Electrification.....19,49	submarginal.....8	Taxation.....40
Employment.....20,38	public.....15	Transportation.....14
Expenditures.....20	Livestock.....22	Veterans' benefits.....48
Family farms.....34	Loans, farm.....1	Water, rights.....18
Farm credit.....34	Minerals.....38	conservation.....35
Farm program.....11,27	Personnel.....16,43,46	resources.....42,49
Farmers Union.....24	Price supports.....27	pollution.....52

HIGHLIGHTS: Sen. Ellender announced Agriculture Committee will not hold hearings on farm bill. Sen. Stennis recommended exportation of more cotton. House passed bill to transfer Puerto Rican hurricane loans. House passed bill to establish fish hatchery in Pisgah Forest. Both Houses received USDA proposal to increase CCC borrowing power. Sen. Young, et al, introduced and Sen. Young discussed bill to provide limit imports of surplus agricultural commodities. Sen. Humphrey, et al, and Rep. Knutson and Metcalf introduced, and Sen. Humphrey discussed, omnibus family farm credit bills.

HOUSE

1. FARM LOANS. Passed as reported H. R. 8385, to transfer from Interior to Agriculture the administration of remaining Puerto Rican hurricane relief loans. pp. 6816-7
2. FORESTRY. Passed as reported H. R. 9822, to require the Secretary of the Interior, after consulting with the Secretary of Agriculture, to establish and operate a trout hatchery in the Pisgah National Forest, N. C. p. 6830
3. CCC BORROWING POWER. Both Houses received from this Department a proposed bill to increase CCC borrowing power by \$2 billion; to House Banking and Currency Committee and Senate Agriculture and Forestry Committee. pp. 6881, 6704
4. FOREIGN AID. Both Houses received the President's report on operation of the Mutual Security Program from July 1 to Dec. 31, 1955; to House Foreign Affairs Committee and Senate Foreign Relations Committee (H. Doc. 369). pp. 6810, 6703
5. LANDS. Passed as reported H. R. 9451, to provide that certain lands (formerly administered by this Department) be held in trust for the Seminole Indians. p. 6829

6. RECLAMATION. Both Houses received from the Interior Department a report on a soil survey and land classification in the Sacramento Canals Unit, Central Valley project, Calif. pp. 6881, 6704
7. ACCOUNTING. H. R. 9593, to simplify accounting and facilitate payment of obligations, was passed over at the request of Rep. Whitten. p. 6822
8. SUBMARGINAL LANDS. H. R. 6815, to authorize disposition of certain Title III Bankhead-Jones lands, was passed over on objection of Rep. Byrnes of Wis. p. 6813.
9. RECORDS MANAGEMENT. S. 2364, to clarify GSA authority over records management, was passed over at the request of Rep. Magnuson. p. 6813
10. COMMODITY EXCHANGES. Rep. McIntire announced plans for hearings on futures trading for May 16, 17, and 18. p. 6812

SENATE

11. FARM PROGRAM. Sen. Ellender announced that the Agriculture and Forestry Committee decided not to hold hearings on H. R. 10875, the new farm bill, and that the Committee would meet on next Wed. in order to consider the House bill. (p. 6740) This bill was referred to the Committee Mon. p. 6703
Sen. Douglas inserted the results of a study made by the Univ. of Illinois showing the decline in prices of various farm commodities. p. 6732
Sen. Douglas inserted his statement explaining his position on the farm bill, and criticizing the present farm program and the President's veto of the farm bill. p. 6730
Received a Cattlemen's Assoc. resolution opposing any soil-bank plan "which would allow cropping or grazing on land which farmers have received payments to lay idle." p. 6706
Sen. Neuberger inserted a local Grange resolution favoring a food stamp plan for disposal of surplus commodities to low income groups. p. 6707
12. FOREIGN TRADE. Sen. Stennis spoke on the importance of exporting more cotton, and the possibility of passing legislation directing the setting-up of a competitive export program for cotton unless one is put into effect soon. p. 6762
Sen. Martin, Iowa, inserted a portion of the President's report reviewing U. S. activities in connection with the Commission on International Commodity Trade and a letter opposing U. S. participation in the Commission, and indicated he now supports our participation in the Organization for Trade Cooperation. p. 6761
Sen. Martin spoke in favor of foreign economic development through a greatly expanded flow of private investment, and inserted several statements on the matter. p. 6760
Sen. Mansfield inserted part of the President's address before the American Society of Newspaper Editors on foreign policy, including references to our cotton trade with Japan. p. 6738
The Foreign Relations Committee submitted a report on Technical Assistance and Related Programs, and Sen. Mansfield inserted his statement to the press on the findings and recommendations of the Committee. (S. Rept. 1956). p. 6713
Sen. Bridges inserted a N. H. citizens petition favoring a reappraisal of our foreign-aid program. p. 6706

also persuaded to sign a note of indebtedness to the insurance company to cover future premium payments and to sign also a power of attorney which enabled the insurance company to make application in the inductee's name, to the Veterans' Administration, for a guaranty of the note of indebtedness. It appears that, after these initial arrangements were made, the matter would often lie dormant and perhaps forgotten so far as the inductee was concerned, until after such time as he came out of the military service and would then be presented with a bill for payment of back premiums, plus interest at the rate of 6 percent, compounded annually in advance.

In many instances where the prospective inductee who was victimized by this scheme did not have \$10 for the initial payment or could not be persuaded to give up \$10, the insurance agents would take his personal note for \$10, payable to the agency. Putting the policy in force in this way meant that in exchange for the inductee's note the insurance agent received at least \$72 for the first year's commission on the policy which amount, of course, is included in the total bill for which the Government guarantees payment.

Now, it is apparent that the timing of the insurance sale under such a scheme as this is of the utmost importance to the success of the scheme. If the prospective inductee were required to pay 6 monthly premiums out of his own pocket, rather than only 1 monthly payment, obviously such a scheme as has been presented to these people would look much less attractive. And moreover, the prospect of putting out such an amount of money would cause the young man to look more carefully and ascertain the facts concerning his continuing liability for the payment of any insurance that he may sign up for with a view to having these payments guaranteed by the Government.

This is precisely what the bill H. R. 10441 would do. The bill simply increases the time during which a policy must be in force prior to a man's induction from 30 days to 6 months, in order to make that policy eligible for premium guarantees under the Soldiers and Sailors Civil Relief Act. The bill should thus avoid the necessity for the Government bringing suits or taking other means to enforce collection of liabilities incurred under future sales of insurance policies. The bill should also remove the probability or the possibility that the Government may incur considerable losses through guaranteeing premium payments on policies which members of the armed services acquire through misunderstanding and misrepresentation, and policies which members of the armed services would not wish to have in any case if they were fully acquainted with the facts concerning their liabilities. While the committee has no information that similar schemes or abuses of the act have been carried on by insurance agencies generally, and no information in fact that such schemes have been carried on by any agency other than the particular agency which the committee investigated, the possibilities for misrepresentation

and abuse are opened to any unscrupulous insurance agent and could therefore give rise to widespread abuses. At the same time the requirement that policies eligible for guarantee be in force at least 6 months prior to the date on which the man is inducted would not substantially contract the benefits of the act to members of the armed services with reference to any legitimate insurance policies legitimately sold.

(Mr. LONG asked and was given permission to extend his remarks at this point in the RECORD.)

VETERANS AND GI'S ARE PRIME VICTIMS OF RACKETEERS

Mr. LONG. Mr. Speaker, I am very much in favor of this bill, H. R. 10441. I will support it. It will do a lot of good. At the same time, however, I want to make it clear that I do not think the bill goes far enough in protecting members of the armed services and members about to be inducted, and veterans of the armed services, from all of the variety of racketeering to which these young men are subjected when they are taken away from their homes and enter into a patriotic service of their country.

When this insurance scheme to prey on young men and young women entering the military service first came up for discussion, it was pointed out to me that one of the operators of this scheme, a Mr. Kenneth W. Simmons, is the same Mr. Simmons who had caused so much trouble to the people of my district several years ago, following World War II, with a so-called training school that was founded and operated at Leesville, La. This school was another kind of scheme to take advantage of the GI benefits and to get the Federal Government to pay for certain educational training which the GI's were entitled to, and which Congress provided for, but which the World War II veterans were not in fact receiving—at least they were not receiving training of the quality they thought they were getting and which they were entitled to receive.

When this matter came to my attention I did not trust my memory as to the details of all the trouble and shady deals perpetrated by Mr. Simmons, so I wrote to a friend of mine at Leesville, which friend is a highly regarded man in public life and who was on the scene throughout the period of this trouble, and I asked him to refresh my memory. I will insert following my remarks the letter which came to me in reply. But before doing this I simply want to point out that I think some committee is going to have to take up the broader problem of all the various kinds of racketeering by which members of the Armed Forces, inductees and veterans, are victimized, and then draft a bill which will contain special penalties for any person or any organization that carries on a scheme of any kind to defraud, or to mislead for commercial gain, young men and young women who are entering upon, or have entered upon, the honorable and highly patriotic service of their country, which kind of service a young man or young woman does render to this country when

he assumes the extraordinary burden of serving in the defense of this country.

The letter to me concerning the operation of the GI trade school at Leesville, La., is as follows:

FEBRUARY 22, 1956.

The Honorable GEORGE S. LONG,
Member of Congress,
House Office Building,
Washington, D. C.

DEAR DR. LONG: This is to acknowledge receipt of your letter of February 9 in which you inquired about a Kenneth W. Simmons who was in charge of the trade school at Leesville.

The story of his dealings in Leesville is somewhat varied and even though I know of no criminal charge ever preferred against him, most of his activities here are considered pretty shady.

To review this situation briefly, Mr. Simmons came to Leesville with a Mr. Cox and Mr. Davis to start the Leesville Vocational School. Apparently, they had very little or no capital, so Mr. Simmons resorted to his skill of promotion. The first dealings that I had with him was when he asked all of the hardware dealers or business houses who handled tools to meet with him. The story to us at that time was that the Veterans' Administration had approved a certain price for a certain kit of tools and that he was at liberty to buy the kits he needed. There were certain kits for the different trades, such as carpenters, electricians, and cabinet-makers. All the dealers, except one, at that time agreed to sell these kits to the school at this certain price, which I do not recall at this time, with the understanding that he was to begin paying in 60 days and complete payment within 90 days of date of delivery. He explained the reason for this was that he would bill the VA and it would take that long to get the money back. We divided the orders among the business houses who were willing to sell them according to the terms outlined. We were eventually paid, but not in the time he had said. The violation there was that he was not authorized to buy as he had told us, but should have taken bids from jobbers who would have supplied these kits for the same thing that the dealers paid. He allowed the dealers a fair profit, but he was shrewd enough not to permit an excessive profit.

Evidently, another way chiseling was done was in expendable materials allowed for training. The general consensus of opinion was that this item was denied the trainees and the money and materials went elsewhere. This could run into a sizable amount as each student or trainee was allowed under the VA setup a reasonable amount of materials for training purposes.

The next off-color deal was the books that should have been bought direct from the publishers, but was given to two local men not even in a kindred business. Like the dealers who furnished the tools, they were informed by Kenneth Simmons that if they would purchase the books, they would be allowed a profit and would be paid as soon as the bills could be sent to the VA and the money sent back to him. The two local men who took this contract were certainly of good character.

All of this and other things came to light after Kenneth Simmons and some of the other stockholders had sold their interests to a Mr. Huggins. An audit was made by the VA and Mr. Huggins, having bought a corporation, was forced to pay some of the excessive costs on tools, books, and other items. It is my understanding that there were quite a few outstanding bills Mr. Huggins had to pay even though he had been assured at the time he made the purchase that all bills were in order and current.

With kindest personal regards, I am,
Yours very truly.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

COMPACT RELATING TO INTER-STATE SCHOOL DISTRICTS

The Clerk called the bill (H. R. 9314) granting the consent of Congress to the States of Illinois and Wisconsin to enter into a compact relating to interstate public school districts where an educational community extends into both such States.

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That the consent of Congress is hereby given to the States of Illinois and Wisconsin to enter into the following compact and agreement relative to interstate public school districts where an educational community extends into both such States.

The compact reads as follows:

ARTICLE I—PURPOSE

The purpose of this compact is to create a pattern of organizations through which all the people of an educational community which crosses State lines may participate in the government of such unit.

ARTICLE II—ORGANIZATION

The State superintendent of public instruction or similarly titled officer of the respective party States designated in the enabling acts approving this compact may by agreement provide for the establishment and operation of interstate public school districts for the operation of elementary and secondary schools.

ARTICLE III—SCOPE OF THE AGREEMENTS

- (a) the establishment of an interstate school district;
- (b) the allocation of costs of operation and capital expenditure between the portions of the district in each State;
- (c) the scope of the educational program;
- (d) the procedures whereby the electors in each State may participate in the formation of school policy;
- (e) the allocation of State school aids;
- (f) the determination of State's laws under which the contracts for the purchase of materials, supplies, and personal services will be made so as to prevent all conflict as to the applicable statutes. Arrangements shall be made for the employment of persons by one State only and for the pro rata reimbursement of that State for services rendered to citizens of another State, but no such agreement shall require that all employees be hired by a particular State; and
- (g) all other matters as are reasonably necessary to carry out the purposes set forth in article I.

ARTICLE IV—EFFECTIVE DATE

This compact shall become operative between any State and other State when, following the adoption of the compact by the legislatures of both such States, the appropriate officers of two States execute an agreement.

ARTICLE V—RENUNCIATION

This compact shall continue in effect and remain binding upon each executing party State until 6 months after any such State has given written notice of renunciation by the same authority which executed the agreement.

ARTICLE VI—SEVERABILITY

The provisions of this compact are severable.

With the following committee amendments:

After the words "The compact reads as follows:" insert a quotation mark before every paragraph on pages 2 and 3, and on page 3, line 24, place a quotation mark after the word "severable."

At the end of the bill insert the following: "SEC. 2. The right to alter, amend, or repeal this act is hereby expressly reserved."

The committee amendments were agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

Mr. WILLIS. Mr. Speaker, I ask unanimous consent that in the engrossment of the bill just passed, H. R. 9314, the Clerk be authorized to make the necessary clerical corrections with respect to the amendments having to do with quotation marks.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Louisiana?

There was no objection.

SIMPLIFYING ACCOUNTING

The Clerk called the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes.

Mr. WHITTEN. Mr. Speaker, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Mississippi?

There was no objection.

AMENDMENT OF VETERANS REGULATIONS

The Clerk called the bill (H. R. 2845) to amend the Veterans Regulations to provide additional compensation for veterans having the service-incurred disability of loss or loss of use of both buttocks.

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That subparagraphs (k) of paragraph II, part I, Veterans Regulation Numbered 1 (a), as amended, is hereby amended by inserting after the words "or one hand" each place they appear therein the following: ", or both buttocks."

SEC. 2. This act shall become effective on the first day of the second month following the date of its enactment.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

VETERANS' ADMINISTRATION

The Clerk called the bill (H. R. 7144) to provide that no application shall be required for the payment of statutory awards for certain conditions which, prior to August 1, 1952, have been determined by the Veterans' Administration to be service-connected.

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That section 7 of Public Law 427, 82d Congress (66 Stat. 296), is hereby amended, effective June 30, 1952, by adding at the end thereof the following sentence: "No application shall be required for the payment of compensation under this

act for the loss or loss of use of a creative organ or for an arrested tuberculosis disease in any case, whether or not now on the rolls, in which a determination of service connection of such condition has been made or is made by the Administrator of Veterans' Affairs prior to August 1, 1952."

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

LEGISLATURE OF THE TERRITORY OF HAWAII

The Clerk called the bill (H. R. 3837) to amend certain sections of the Hawaiian Organic Act, as amended, relating to the Legislature of the Territory of Hawaii.

There being no objection, the Clerk read the bill, as follows:

Be it enacted etc., That section 30 of the Hawaiian Organic Act (48 U. S. C. 565) is amended to read as follows:

"SEC. 30. Senate; number; term: The senate shall be composed of 25 members, who shall be elected by the qualified voters of the respective senatorial districts for a term of 4 years beginning with their election and ending on the day of the second general election after their election: *Provided, however,* That (1) senators elected at the general election of 1954 shall continue to hold office until the expiration of their present terms and shall be deemed to have been elected from the new senatorial district in which they resided at the time of their election; and (2) that at the first session of the legislature subsequent to the general election of 1956, the legislature shall so assign the senators to long or short terms, that as nearly as possible one-half of them, including the holdover senators, shall hold office for 2 years and the remaining senators shall hold office for 4 years.

SEC. 2. Section 32 of said act (48 U. S. C. 568) is amended to read as follows:

"SEC. 32. Senatorial districts: For the purpose of representation in the senate, the Territory is divided into the following senatorial districts, namely:

"First senatorial district: That portion of the island of Hawaii known as Puna, Hilo, and Hamakua;

"Second senatorial district: That portion of the island of Hawaii known as Kau, Kona, and Kohala;

"Third senatorial district: The islands of Maui, Molokai, Lanai and Kahoolawe;

"Fourth senatorial district: That portion of the island of Oahu lying east and south of Nuuanu Street and Pali Road and the upper ridge of the Koolau Range from the Nuuanu Pali to Makapuu Point and all other islands not specifically enumerated;

"Fifth senatorial district: That portion of the island of Oahu lying west and north of the fourth senatorial district; and

"Sixth senatorial district: The islands of Kauai and Niihau."

SEC. 3. Section 33 of said act (48 U. S. C. 569) is amended to read as follows:

"SEC. 33. Apportionment of senators: The electors in the said senatorial districts shall be entitled to elect senators as follows:

- In the first senatorial district, five;
- In the second senatorial district, two;
- In the third senatorial district, five;
- In the fourth senatorial district, five;
- In the fifth senatorial district, five;
- In the sixth senatorial district, three."

SEC. 4. Section 35 of said act (48 U. S. C. 570) is amended to read as follows:

"SEC. 35. House of representatives; number: The house of representatives shall be composed of 51 members, who shall be elected by the qualified voters of the respective representative districts."

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued May 22, 1956
For actions of May 21, 1956
84th-2nd, No. 83

CONTENTS

Accounting.....13,29	Farm credit.....37	Orchards.....35
Appropriations.....7,39,40	Farm prices.....25	Personnel.....5,15,36
Audit report.....6	Farm program.....1,19	Property.....32
Budgeting.....29	Fisheries.....31	Reclamation.....4
County committees.....17	Foreign aid.....27,38	Research.....34
Dairy industry.....22	Foreign trade.....11,23	Soil bank.....33
Disaster relief.....35	Forestry.....2	Surplus commodities.....30
Economic report.....3	Information.....14	Tobacco.....10,33
Electrification.....16,24	Lands.....2,12,37	Virgin Islands.....6
Export control.....11	Mediterranean fruitfly...9	Water.....18,28
Family farms.....20	Natural resources.....26	Wildlife.....21

HIGHLIGHTS: Farm bill sent to conference. Senate debated Johnston retirement bill. House committee reported public works appropriation bill. House passed bills altering dates for proclamation of tobacco quotas and basing penalties on violations of tobacco allotments on a harvested basis. House received from President supplemental appropriation estimates for USDA. House received USDA proposed bill to increase Public Law 480 authorization. Rep. Christopher criticized county committee system. Sen. Kennedy and others introduced and Sen. Kennedy discussed bill to revise budgeting and accounting process. Sen. Ellender introduced bill to increase Public Law 480 authorization. Rep. Green, Oreg., introduced and discussed bill to provide assistance for disaster stricken orchards.

SENATE

1. FARM PROGRAM. Senate and House conferees were appointed on H. R. 10875, the farm bill. p. 7677
2. FORESTRY. Passed without amendment S. 2967, to authorize the acquisition of additional lands within the roadless area of the Superior National Forest. p. 7662
At the request of Sen. Bible, passed over S. 1907, to transfer some Title III Bankhead-Jones lands to the Indians of the Zia and Jemez pueblos in N. Mex. p. 7671
3. ECONOMIC REPORT. Passed as reported S. 3332, extending the time for filing the report of the Joint Committee on the Economic Report to Jan. 20 each year, and changing the name of the Committee to the "Joint Economic Committee." p. 7677
4. RECLAMATION. Passed without amendment S. 3101, to authorize construction by the Secretary of the Interior of the Crooked River reclamation project, Ore. p. 7671

Passed without amendment H. R. 1779, to authorize the Secretary of the Interior to construct, operate, and maintain the Juniper division of the Wapinitia reclamation project, Ore. (p. 7672) This bill is now ready for the President.

5. PERSONNEL. Began debate on S. 2875, the Johnston retirement bill. pp. 7678, 7680.
6. VIRGIN ISLANDS. Received the Comptroller General's audit report of the Virgin Islands for the 1955 fiscal year. p. 7651
7. APPROPRIATIONS. Sen. Holland submitted and commented on an amendment intended to be proposed to H. R. 11177, the USDA appropriation bill, to provide \$1,500,000 to combat the Mediterranean fruitfly. p. 7657
8. FEED GRAINS. Sen. Kennedy inserted a letter from the Eastern States Farmers' Exchange opposing higher support prices for feed grains. p. 7653

HOUSE

9. APPROPRIATIONS. The Appropriations Committee reported without amendment H. R. 11319, the public works appropriation bill for 1957 (H. Rept. 2181). pp. 7689, 7736
Received from the President a supplemental appropriation estimate that will provide 1,250,000 in fiscal year 1956 and \$250,000 in fiscal year 1957 for "Salaries and expenses, Agricultural Research Service" to provide additional funds for a Mediterranean Fruitfly eradication program in Florida; to Appropriations Committee (H. Doc. 407). p. 7735
10. TOBACCO. Passed without amendment H. R. 10108, to provide for the determination of penalties for tobacco acreage allotment violations on a harvested basis rather than a marketed basis. p. 7698
Passed as reported H. R. 9475, to provide for the date of proclamation of marketing quotas for tobacco as Dec. 1 for flue-cured tobacco and Feb. 1 for other kinds of tobacco. p. 7701
11. FOREIGN TRADE. Received from this Department a proposed bill to amend the Agricultural Trade Development and Assistance Act of 1954 by increasing the authorization to \$3 billion, authorizing aid to American-sponsored schools abroad, and permitting barter with Communist countries; to Agriculture Committee. p. 7735
Passed with amendments H. R. 9052, to extend the Export Control Act of 1949 for two years (to June 30, 1958). p. 7717
12. LANDS. Reps. Metcalf, Wier, and Byrnes, Wis., objected to the consideration of H. R. 6815, to provide for the disposition of certain lands acquired under Title III of the Bankhead-Jones Farm Tenant Act. p. 7690
13. ACCOUNTING. At the request of Rep. Aspinall (acting for Rep. Dawson), passed over H. R. 9593, to simplify and facilitate accounting and obligation payment procedures. p. 7690
14. INFORMATION. Passed without amendment H. R. 10417, to amend the Federal Register Act so as to provide that the President may make notice of certain of his acts by other means if, in the event of an enemy attack upon the U. S., the effectiveness of the Federal Register would be limited. p. 7698

ure "compensation of employees"—which lumps together the topmost corporation executives and directors as well as ordinary workers, and calls them all "employees." I am sure that most \$75,000 a year executives do not classify themselves as "labor"; nor are they such, except, perhaps to a politician who is trying to hoodwink workers about which party has their interests at heart.

I think the following figures give a much more accurate picture of whether workers are getting an even break under the Eisenhower administration: In the 3 years of Republican administration, while corporations' profits after taxes have increased 34 percent, the average person's income after taxes has gone up only 8 percent. In 1955 alone, while United States Steel profits went up 89 percent; Jones & Laughlin up 100 percent, and Youngstown Sheet & Tube up 106 percent, steelworkers' wages rose only 14 percent. While General Motors profits went up 48 percent, auto workers' wages rose only 10 percent; while Standard Oil of New Jersey profits rose 23 percent, oil workers participated only to the extent of 5 percent; while Monsanto profits went up 78 percent, chemical workers' wages gained only 5 percent.

To see if they are getting an even break under this administration, I suggest that workers all over the country compare the improvement in their economic well-being over the last 3 years with that of the corporations for which they work. If they do that, no amount of statistical shennannigans by Mr. Hall will be able to dissuade them that Republican "prosperity" is lopsided in favor of big business, and against the average citizen.

PUBLIC WORKS APPROPRIATION BILL, FISCAL YEAR 1957

Mr. CANNON, from the Committee on Appropriations, reported the bill (H. R. 11319) making appropriations for the Tennessee Valley Authority, certain agencies of the Department of the Interior and civil functions administered by the Department of the Army for the fiscal year ending June 30, 1957 (Rept. No. 2181) which was read a first and second time and with accompanying papers referred to the Committee of the Whole House on the State of the Union and ordered to be printed.

Mr. DAVIS of Wisconsin reserved all points of order.

Mr. DAVIS of Wisconsin. Mr. Speaker, I ask unanimous consent that members of the committee may have until midnight tonight to file minority views on the public works appropriation bill and that those views be printed with the committee report.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

CORRECTION OF THE RECORD

Mr. MAHON. Mr. Speaker, I ask unanimous consent to correct the Record of May 9, 1956, on page 6997, third column, by striking out the figure "1,668,-

000" and changing it to read "1,168,000."

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

WATER POLLUTION CONTROL BILL

Mr. BLATNIK. Mr. Speaker, I ask unanimous consent that the House Committee on Public Works have until midnight tonight to file a report on the water pollution control bill, H. R. 9540.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Minnesota?

There was no objection.

THE LATE HONORABLE LORING M. BLACK

(Mr. CELLER asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. CELLER. Mr. Speaker, I am indeed saddened today at the news of the sudden death of Loring Black, a former member of this distinguished body. We both came to this House together, having been elected in 1922.

Loring served many years with us. He left his mark upon this body as an eminent Member. His was a Congressional career of rare accomplishments, he was an excellent debater and of the highest integrity of purpose. I am, indeed, grieved because Loring was my dear friend. He leaves behind him a good name.

As the Psalmist said:

Better is the fragrance of a good name than the perfume of precious oils.

Mr. MULTER. Mr. Speaker, I ask unanimous consent that all Members may have permission to extend their remarks at this point in the Record on the passing of our late distinguished colleague, Loring M. Black, of New York.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. ROONEY. Mr. Speaker, I was truly shocked this morning when I learned of the sudden and untimely passing of my dear friend, Hon. Loring Milton Black, who long and honorably served in the House of Representatives as a Democrat from Brooklyn, N. Y.

It is with deep emotion and a feeling of great sorrow and loss that I raise my voice in brief, but nonetheless sincere tribute to the life and character and public service of Loring Black.

While it was not my privilege to have served with him here in the House, I have nevertheless known him for many years and we had a very close personal association and friendship right up to the time of his passing. It was just on Thursday last that I had a chat with him here in the Capitol and made an appointment to see him during this week.

Loring Black was born in New York City on May 17, 1886, attended the public schools, and was graduated from Fordham University, New York City, in 1907. He studied law at Columbia University,

was admitted to the bar in 1909 and thereupon commenced the practice of law in New York City. He served as a member of the New York State Senate in 1911 and 1912; resumed the practice of his profession in New York City; and again served as a member of the New York State Senate in 1919 and 1920. He was elected a Member of the United States House of Representatives to the 68th Congress and the five succeeding Congresses; serving from March 1923 to January 1935. He was not a candidate for renomination in 1934.

Loring enjoyed the reputation of being a most persuasive and eloquent orator and was gifted with a keen sense of humor. He was a brilliant lawyer and achieved great success in his profession.

I feel a great personal loss in the passing of Loring Black as I have long considered him one of my very dear friends and advisers. I always held him in the highest esteem and had profound respect for his ability and integrity.

His record in Congress and in the legal profession was filled with many achievements. His many years of public service and his distinguished record in private life will long endure. I am sure that I speak not only for myself but for all the Members of this body who knew him when I say that his kindness, his memory, will linger in our hearts forever. I extend to his dear wife my sincere sympathy in her sad bereavement. May he rest in peace.

ARMED SERVICES DAY

(Mrs. ROGERS of Massachusetts asked and was given permission to address the House for 1 minute, to revise and extend her remarks, and to include extraneous matter.)

Mrs. ROGERS of Massachusetts. Mr. Speaker, over the week end I was privileged to see a wonderfully fine and impressive exhibition of our armed services in different military establishments. I was privileged to review, with General Milburn at Fort Stevens, a very fine infantry group. I have never seen finer marching and was never more impressed with the strength and the power of the men.

I should like again to express my deep gratitude to the officers and men and women who are working to keep our country safe; they face danger day after day even in peace.

COMMITTEE ON THE JUDICIARY

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that the Committee on the Judiciary may sit during general debate today and on Wednesday, May 23.

The SPEAKER pro tempore. Is there objection to the request of the gentlemen from Oklahoma?

There was no objection.

Mr. THOMPSON of Texas assumed the Chair.

THE LATE EUGENE J. BUTLER

(Mr. McCORMACK asked and was given permission to address the House

for 1 minute and to revise and extend his remarks.)

Mr. McCORMACK. Mr. Speaker, on Thursday last one of the most beloved men in Washington, Eugene J. Butler, died.

For 26 years Mr. Butler was a member of the staff of the legal department of the National Catholic Welfare Conference, and since 1951 he was its director. In performing his duties he had occasion throughout the years to appear before committees of the Congress, and to discuss matters of importance and concern to the National Catholic Welfare Conference with many hundreds of Members of the Congress and with officials in the executive branch of our Government. He also had occasion to meet many thousands of persons who were not in public life or in the Government service.

Everyone who ever met Gene Butler was impressed by him. They recognized he was not only an able and fair gentleman but that he was honorable and trustworthy. By reason of his fine personality, his deep knowledge of any matter he was engaged in, and his noble qualities of mind and character, Gene Butler always obtained the maximum favorable results possible. It would be most difficult for the National Catholic Welfare Conference to fill his place.

Mr. Butler, or "Gene" as his friends called him, was born at Scranton, Pa., and came to Washington in the service of the National Catholic Welfare Conference 26 years ago. He attended St. Thomas College, now the University of Scranton; also Holy Cross College and Fordham University Law School.

During his years of service with the National Catholic Welfare Conference he became widely known throughout the country. He received many honors, among which was the Knight Commander of the Order of St. Gregory the Great, conferred upon him in 1954 by Pope Pius XII. The Catholic University of America conferred upon him last year an honorary doctorate of laws for his outstanding zeal and talent.

I first met Gene Butler shortly after his arrival in Washington. During the years he has been with the National Catholic Welfare Conference and until his death we have seen each other hundreds of times. There quickly developed between us a close friendship which has grown and developed throughout the years. In his death I have lost one of my closest friends. I shall miss him very much.

To Mrs. Butler and her children and to his brothers and sisters Mrs. McCormack and I extend our deepest sympathy in their bereavement.

Mr. Speaker, I ask unanimous consent that all other members who so desire may extend their remarks at this point in the RECORD in relation to the late Eugene J. Butler.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

Mr. ROONEY. Mr. Speaker, I was deeply saddened by the passing last Fri-

day morning at Georgetown University Hospital of my dear friend of long standing, Eugene J. Butler, director of the legal department of the National Catholic Welfare Conference.

Gene Butler was widely known throughout the country as counselor and adviser to Roman Catholic institutions and welfare agencies and because of his vast experience and legal knowledge rendered an extraordinary service to his church and faith. He was a real Christian gentleman and was always kind and considerate to his host of friends and associates. For 21 years before he became its director he was a member of the staff of the National Catholic Welfare Conference legal department.

He was recognized as an outstanding expert on the legislative matters and problems in which the National Catholic Welfare Conference had an interest and he held the confidence of the high-ranking Catholic clergy throughout the country. With his wonderful personality and charm, as well as his sincerity of purpose, he always had ready access to his many friends in the House and Senate who respected his opinions and high ideals.

I feel fortunate, and benefited much, in having a close friendship with Gene Butler for many years. After becoming a Member of the House I had many occasions to see him on matters in which we had a mutual interest, and I always found him most patient, kind, and understanding. He possessed a fine intellect and legal mind. He had a great amount of commonsense. I always admired his zeal and uncompromising loyalty to his faith and the Christian principles in which he so deeply believed.

Mr. Speaker, I have lost a true friend in the loss of Gene Butler. Because of his many good deeds, scrupulous principles, and successful career, he leaves a respected heritage to his loved ones. His widow and four children have my deepest sympathy in their hour of sorrow. I am sure he is in heaven.

May He support us all the day long
Till the shades lengthen and the evening comes

And the busy world is hushed
And the fever of life is over and our work is done.

Then in His mercy may He give us a safe lodging

And a holy rest and peace at the last.

—Cardinal Newman.

Mr. RABAUT. Mr. Speaker, Mr. Eugene J. Butler, general counsel for the National Catholic Welfare Conference, was a man of sterling quality. His death at a young age is a blow to the institution and its members whom he served so well. He was a familiar figure here on the Hill, always interested in the less fortunate of the world. He will be missed in Washington and other places where his counsel was so often sought. I extend my deepest sympathy to his family.

CONSENT CALENDAR

The SPEAKER pro tempore (Mr. McCormack). This is Consent Calendar day. The Clerk will call the first bill on the Consent Calendar.

DISPOSAL OF LANDS UNDER BANK-HEAD-JONES FARM TENANT ACT

The Clerk called the bill (H. R. 6815) to provide for the orderly disposition of property acquired under title III of the Bankhead-Jones Farm Tenant Act, and for other purposes.

The SPEAKER pro tempore. Is there objection to the present consideration of the bill? Three objections are required.

Mr. METCALF, Mr. WIER, and Mr. BYRNES of Wisconsin objected.

GENERAL SERVICES ADMINISTRATION

The Clerk called the bill (S. 2364) to amend the Federal Property and Administrative Services Act of 1949, as amended, and for other purposes.

Mr. CUNNINGHAM. Mr. Speaker, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Iowa?

There was no objection.

SIMPLIFYING ACCOUNTING

The Clerk called the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes.

Mr. ASPINALL. Mr. Speaker, at the request of the gentleman from Illinois [Mr. DAWSON], who is unavoidably detained today, I ask unanimous consent that the bill be passed over without prejudice.

MENTAL HEALTH STUDY GRANTS

The Clerk called the bill (H. R. 9048) to amend the Public Health Service Act so as to improve the mental health of the Nation through grants for special projects to develop improved methods of care, treatment, and rehabilitation of the mentally ill.

Mr. CUNNINGHAM. Mr. Speaker, in view of the fact that this bill calls for \$1,500,000, a half million more than it is customary to consider on the Consent Calendar, and also because there are no departmental reports, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Iowa?

There was no objection.

Mr. WOLVERTON. Mr. Speaker, I urge Members of the House to give favorable consideration to the bill H. R. 9048, now before the House.

The objective of this bill is to amend the Public Health Service Act so as to improve the mental health of the Nation through grants for special projects to develop improved methods of care, treatment, and rehabilitation of the mentally ill. What could be more appealing than to assist in the adoption of legislation that has such a worthy as well as necessary objective.

We are all aware of the extent to which mental illness handicaps an ever-increasing portion of our population.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

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CONTENTS

Accounting.....12	Forestry.....14,16,27	Personnel.....4,24,35,40
Appropriations.....1,8,43	Grain.....13	Price supports.....28
Atomic energy.....19	Information.....42	Property.....3,20
Cotton.....31	Inspection services.....21	Reclamation.....22,39
Economic report.....18	Lands.....3	Records.....11
Electrification.....19,32	Legislative program.....8	Roads.....10
Fisheries.....7	Libraries.....41	Social security.....5
Flood insurance.....34	Livestock.....2,38	Soil bank.....9,33
Food bank.....25	Milk.....17	Taxation.....2
Foreign affairs.....29	Mining.....16	Transportation.....26
Foreign aid.....15,30,37	National parks.....27	Water.....23,36
Forest Service.....1	Nominations.....6	Wildlife.....13

HIGHLIGHTS: Senate agreed to conference report on Interior appropriation bill. Ready for President. Senate agreed to conference report on bill adjusting certain taxes on livestock. Senate Committee reported nomination of Seaton to be Secretary of Interior. Senate passed Labor-HEW and D. C. appropriation bills. Rep. Edmondson criticized proposed administration of soil bank act. House conferees were appointed on road bill. House passed bill to simplify accounting and payment of obligations methods. House passed bill authorizing use of CCC grain to control water fowl depredations. House Committee reported Superior National Forest land purchase bill.

SENATE

1. APPROPRIATIONS. Agreed to the conference report on H. R. 9390, the Interior Department appropriation bill for 1957 (including Forest Service items). p. 8568 This bill is now ready for the President.

Passed with amendments H. R. 10003, the D. C. appropriation bill for 1957. Conferees were appointed. pp. 8571, 72

Passed with amendments H. R. 9720, the Labor-HEW appropriation bill for 1957. Conferees were appointed. (pp. 8575, 8591) The committee report on this bill contains the following statement: "The estimate contained a request for administrative funds in connection with the Department's proposed new program for the development of agriculture's human resources, designed as a cooperative program with the Department of Agriculture. Funds were denied for the purpose in the summer of 1955, and by the House in this bill. No more adequate justification has been offered the committee than that given last year, and consequently no funds are allowed for this new program.

"It is the consensus of the committee that this is a program for which the Department of Agriculture has primary responsibility, and should that Department require services of the Department of Labor as described in the estimates, then the Department of Agriculture should transfer such funds to Labor for such services as it may be called upon to perform."

2. TAXATION. Agreed to the conference report on H. R. 6143, to repeal the tax on livestock sold on account of drought. (See Digest 91 for provisions of report.) p. 8590
 3. PROPERTY; LANDS. Received from the Justice Department a report of the Inter-departmental Committee for the Study of Jurisdiction Over Federal Areas Within the States; to Government Operations Committee. p. 8519
 4. PERSONNEL. The Judiciary Committee reported with amendment S. 374, to provide for extension, and suspension in certain cases, of statutes of limitation on false swearing by Government employees with respect to subversive activities and connections (S. Rept. 2112). p. 8520
Received from the Jt. Committee on Reduction of Nonessential Federal Expenditures the report on Federal employment and pay for the month of April 1956. p. 8521
 5. SOCIAL SECURITY. The Finance Committee reported with amendments H. R. 7225, to extend the benefits of the Social Security Act (S. Rept. 2133). p. 8520
 6. NOMINATIONS. The Interior and Insular Affairs Committee reported the nomination of Frederick A. Seaton to be Secretary of the Interior. p. 8524
 7. FISHERIES. Sen. Payne inserted and commented on an announcement issued by the White House June 4 for the creation of a Bureau of Fisheries in the Department of the Interior. p. 8529
 8. LEGISLATIVE PROGRAM. Majority Leader Johnson announced that H. R. 9536, the general Government matters appropriation bill, and H. R. 9739, the independent offices appropriation bill, would be taken up today. p. 8571
- HOUSE
9. SOIL BANK. Rep. Edmondson expressed concern that certain farmers suffering from drought and flood damage might not be considered eligible for soil bank participation. p. 8610
 10. ROADS. Conferees were appointed on H. R. 10660, the Federal aid roads bill. p. 8610 Senate conferees were appointed on May 29.
 11. RECORDS. S. 2364, to clarify GSA authority over records management, was passed over at the request of Rep. Cunningham. p. 8611
 12. ACCOUNTING. Passed with amendment H. R. 9593, to improve the accounting procedure of the Government in two major respects: (1) to merge all prior-year obligated balances into one consolidated account for the same general purposes within each agency, and (2) to authorize the agencies of the Government to pay those bills on which there is no dispute but for which the appropriations have lapsed and make them chargeable to the lapsed appropriations in the same manner as bills payable from currently available appropriations. Agreed to a series of amendments, by Rep. Dawson, to various provisions of the bill. p. 8611
 13. GRAINS. Passed as reported H. R. 7641, which authorizes the Interior Department to requisition from CCC such wheat, corn, and other grains as CCC certifies to be available from its price-support inventories for the purpose of feeding migratory waterfowl such as ducks and geese; provides that Interior will reimburse CCC for expenses of packaging and transportation; and authorizes appropri-

MR. AND MRS. THOMAS V. COMPTON

Mr. FORRESTER. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 1866) for the relief of Mr. and Mrs. Thomas V. Compton, with a Senate amendment thereto, and concur in the Senate amendment.

The Clerk read the title of the bill.

The Clerk read the Senate amendment, as follows:

Page 2, line 7, strike out "in excess of 10 percent thereof."

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

The Senate amendment was concurred in.

A motion to reconsider was laid on the table.

MRS. ELLA MADDEN AND CLARENCE E. MADDEN

Mr. FORRESTER. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 5237) for the relief of Mrs. Ella Madden and Clarence E. Madden, with a Senate amendment thereto, and concur in the Senate amendment.

The Clerk read the title of the bill.

The Clerk read the Senate amendment, as follows:

Page 2, lines 7 and 8, strike out "in excess of 10 percent thereof."

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

The Senate amendment was concurred in.

A motion to reconsider was laid on the table.

CONSENT CALENDAR

The SPEAKER. This is Consent Calendar day. The Clerk will call the first bill on the Consent Calendar.

AMENDING FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949, AS AMENDED

The Clerk called the bill (S. 2364) to amend the Federal Property and Administrative Services Act of 1949, as amended, and for other purposes.

The SPEAKER. Is there objection to the present consideration of the bill?

Mr. CUNNINGHAM. Mr. Speaker, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER. Is there objection to the request of the gentleman from Iowa?

There was no objection.

SIMPLIFYING ACCOUNTING, FACILITATING THE PAYMENT OF OBLIGATIONS, ETC.

The Clerk called the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes.

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That, except as otherwise provided by law, (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the activity responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this act is approved, in the case of an appropriation which, on the date of approval of this act, is available only for disbursement.

(c) For the purposes of this act, the obligated balance of an appropriation account shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation as of the close of the fiscal year as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals required pursuant to subsection (a) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this act is approved.

SEC. 2. Each appropriation account established pursuant to this act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this act shall be reviewed

periodically, but at least once each fiscal year, by each activity responsible for the liquidation of the obligations chargeable to such accounts. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess shall be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this act. Within 30 days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to the act for discontinued appropriations of the activity currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled or will not be undertaken or continued; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or where heretofore withdrawn from the appropriation account by administrative action

may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed:

(a) The proviso under the heading "Payment of Certified Claims" in the act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of Certified Claims" in the act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

SEC. 8. The provisions of this act shall not apply to the appropriations for the District of Columbia.

With the following committee amendment:

Strike out all after the enacting clause and insert in lieu thereof the following: "That, (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

"(1) The obligated balance shall be transferred to an appropriation account of the agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

"(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate accounts established pursuant to this act: *Provided further*, That prior thereto the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require.

"(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

"(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this act is approved, in the case of an appropriation which, on the date of approval of this act, is available only for disbursement.

"(c) For the purposes of this act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)).

Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General

Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

"(d) The transfers and withdrawals made pursuant to subsections (a) and (b) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this act is approved.

"SEC. 2. Each appropriation account established pursuant to this act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

"SEC. 3. (a) Appropriation accounts established pursuant to this act shall be reviewed periodically, but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess may be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

"(b) Whenever a payment chargeable to an appropriation account established pursuant to this act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

"(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this act. Within 30 days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

"SEC. 4. During the fiscal year following the fiscal year in which this act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the act of July 6, 1949 (63 Stat. 407;

31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this act.

"SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hercof, or in one or more other accounts to be established pursuant to this act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

"SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this act whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

"SEC. 7. The following provisions of law are hereby repealed:

"(a) The proviso under the heading 'Payment of Certified Claims' in the act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

"(b) Section 2 of the act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

"(c) The paragraph under the heading 'Payment of Certified Claims' in the act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

"(d) Section 5 of the act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

"(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

"(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

"SEC. 8. The provisions of this act shall not apply to the appropriations for the District of Columbia.

"SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

Mr. DAWSON of Illinois. Mr. Speaker, I offer an amendment to the committee amendment.

The Clerk read as follows:

Amendment offered by Mr. Dawson of Illinois to the committee amendment:

Page 7, lines 19 and 20, strike "upon the expiration of such period." Line 21, insert immediately after "(1)" the following: "On June 30 of the second full fiscal year following the fiscal year or years for which the appropriation is available for obligation," and substitute "the" for "The."

Page 8, line 3, strike "The remaining" and insert in lieu thereof "Upon the expiration of the period of availability for obligation, the unobligated." Line 10, strike "remaining" and insert in lieu thereof "unobligated." Lines 11 and 12, strike "remaining" and insert in lieu thereof "unobligated." Lines 12 and 13, strike "established pursuant to this act." Line 17, strike "transfers and." Line 18, insert "(2)" immediately following "(a)."

Page 9, lines 9 to 11, strike "as reported pursuant to section 1311 (b) of the Supple-

mental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b))." and insert in lieu thereof "the unobligated balance shall represent the difference between the obligated balance reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)), and the total unexpended balance." Lines 13 to 17, strike "close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1)" and insert in lieu thereof "transfer of the obligated appropriation balance as required by subsection (a) (1) of this act, shall, unless otherwise authorized by law, be credited to the account into which the obligated balance has been transferred." Line 17, insert "any" immediately following "that" and substitute "collection" for "collections." Line 20, strike "transfers and." Line 21, substitute "subsection (a) (2)" for "subsections (a) and (b)."

Page 9, lines 23 and 24, substitute a period for the comma. Strike "except that such transfers of appropriations" and insert in lieu thereof "The withdrawals."

Page 10, lines 23 to 25, strike "may be transferred to such account from the appropriation currently available for the same general purposes" and insert in lieu thereof "not to exceed the remaining unobligated balances of the appropriations available for the same general purposes, may be restored to such account."

Page 11, line 1, substitute "restorations" for "transfers." Line 2, insert after "required" the words "or authorized." Line 6, substitute "restorations" for "transfers." Line 9, substitute a colon for the period and add the following: "Provided, That prior to any restoration under this subsection the head of the agency concerned shall make such report with respect thereto as the Director of the Bureau of the Budget may require." Lines 10 through 20, strike all of subsection (b). Line 21, renumber subsection "(c)" to "(b)."

Page 12, line 9, substitute "obligated" for "undisbursed." Lines 12 and 13, strike "closed in the manner provided in section 1 (a) of this act" and insert in lieu thereof "transferred to the related appropriation accounts established pursuant to this act and the unobligated balance shall be withdrawn." Line 16, insert after "may" the following: "upon the expiration of the second full fiscal year following the fiscal year or years for which such appropriations are available for obligation."

Page 14, lines 2 and 3, strike "to remain available for expenditure for any period beyond that for which it is available for obligation" and insert in lieu thereof "which is limited for obligation to a definite period of time to remain available for expenditure for more than the 2 succeeding full fiscal years."

Page 14, line 6, strike the period after Columbia and add the following: "or appropriations to be disbursed by the Secretary of the Senate or the Clerk of the House of Representatives."

The amendment to the committee amendment was agreed to.

The committee amendment, as amended, was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

AMENDING THE PUBLIC HEALTH SERVICE ACT TO PROVIDE MENTAL HEALTH STUDY GRANTS

The Clerk called the bill (H. R. 9048) to amend the Public Health Service Act

so as to improve the mental health of the Nation through grants for special projects to develop improved methods of care, treatment, and rehabilitation of the mentally ill.

The SPEAKER. Is there objection to the present consideration of the bill?

Mr. BYRNES of Wisconsin. Mr. Speaker, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

NATIONAL HEALTH SURVEY ACT

The Clerk called the bill (S. 3076) to provide for a continuing survey and special studies of sickness and disability in the United States, and for periodic reports of the results thereof, and for other purposes.

The SPEAKER. Is there objection to the present consideration of the bill?

Mr. BYRNES of Wisconsin. Mr. Speaker, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

SETTLEMENT OF CERTAIN CLAIMS OF UTAH AND WHITE RIVER BANDS OF UTE INDIANS

The Clerk called the bill (H. R. 7663) to provide for settlement in part of certain claims of the Uintah and White River Bands of Ute Indians in Court of Claims case No. 47568, through restoration of subsurface rights in certain lands formerly a part of the Uintah Indian Reservation.

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That after acceptance by the Ute Indian Tribe of the Uintah and Ouray Reservation, in Utah, of the provisions of this act and the filing by the Uintah and White River Bands of Ute Indians of an amendment to the petition in Court of Claims case No. 47568, as provided in section 5 hereof, all right, title, and interest in and to the subsurface, including mineral and oil and gas resources, of the land described in section 6, shall be restored to tribal ownership and vested in the Ute Indian Tribe of the Uintah and Ouray Reservation in Utah. Valid oil and gas leases outstanding on this land as of the effective date of this act shall continue in force and effect according to their terms, but any extension or renewal thereof, except as required by the terms of said leases, shall be subject to the approval of the Ute Indian Tribe of the Uintah and Ouray Reservation, and all rentals, royalties, or other payments received by the United States under or on account of such leases after the effective date of this act shall be deposited into the Treasury of the United States to the credit of the Ute Indian Tribe of the Uintah and Ouray Reservations, in Utah, pursuant to the provisions of the act of May 17, 1926 (44 Stat. 560), as amended (25 U. S. C., sec. 155), and shall be available for such purposes as may be designated by the Uintah and Ouray Tribal Business Committee and approved by the Secretary of the Interior. Upon the lapse, surrender, expiration, or termination of any such lease, the

subsurface rights covered thereby shall be vested in the Ute Indian Tribe of the Uintah and Ouray Reservation, in Utah, in accordance with the terms of this act.

SEC. 2. The Ute Indian Tribe of the Uintah and Ouray Reservation, in Utah, may prospect, mine, drill, remove, process, or otherwise exploit any or all of the subsurface mineral and oil and gas resources of the land described in section 6 of this act that are not covered by valid leases, locations, or other claims as of the effective date of this act; may sell or otherwise dispose of any or all of the production obtained through the exploitation of such resources by said tribe; and may issue leases or permits for the prospecting, mining, drilling, removal, or processing of such resources. Each such action shall be in accordance with the provisions of law and of the constitution, bylaws, and corporate charter of said tribe, that would be applicable to the taking of like action with respect to mineral resources within the Uintah and Ouray Reservation. Any operations conducted pursuant to this section or under a lease or permit issued pursuant to this section shall also be subject to the direction and control of the Secretary of Agriculture to the extent provided in section 3 of this act. The mineral resources of the land described in section 6 shall not be subject to disposition otherwise than as provided in this section, except in pursuance of valid leases, locations, or other claims existing at the time this act becomes effective and thereafter maintained in compliance with the laws under which the same were initiated.

SEC. 3. The term "direction and control of the Secretary of Agriculture" as used herein means such administrative supervision by the Secretary of Agriculture as is reasonably necessary to prevent serious injury to the surface resources of the land described in section 6, or the adjoining lands of the Uintah National Forest, but shall not be construed to prohibit the use of the surface, under accepted engineering or mining standards, for prospecting, mining, drilling, and removing subsurface resources, including (but without limitation to) installation and operation of mining, drilling, or pumping equipment and machinery, building and maintaining roadways, and free ingress and egress for prospecting, exploiting, and removing such surface resources to market.

SEC. 4. The benefits herein granted to the Ute Indian Tribe of the Uintah and Ouray Reservation, in Utah, shall be in partial settlement of the claims of the Uintah and White River Bands of the Ute Indians pending before the Court of Claims in docket numbered 47568, and upon acceptance, as provided in section 5, shall have the effect of releasing the United States from any claimed liability for the payment of such damages as might be based upon the subsurface resources or value thereof attributable to the lands which are the subject matter of that said action. Any jurisdiction of the Court of Claims to make an award of damages including or based upon subsurface values in docket No. 47568 shall be withdrawn upon this act's taking effect as provided in section 5, and jurisdiction of the Court of Claims in docket No. 47568 shall thereafter be continued only as to a claim for just compensation based upon the value of the surface rights of the lands which are the subject of that action: *Provided*, That the standard of liability and measure of damages in such action shall in all other respects be determined by the provisions of the Ute Jurisdictional Act of June 28, 1938 (52 Stat. 1209), as amended by the acts of July 15, 1941 (55 Stat. 593), June 22, 1943 (57 Stat. 160), June 11, 1946 (60 Stat. 255), and sections 1, 2, 11, and 25 of the act of August 13, 1946 (60 Stat. 1049), except that any money heretofore received by the United States, for or on account of the patenting or other disposition, without reservation of mineral rights, of any of the land cov-

ered by the claim, and paid over to or expended for the benefit of the Uintah and White River Bands shall be deemed to be in lieu of compensation for the subsurface values thus disposed of and shall not be allowed as a payment on the claim or an offset against any recovery which may be awarded as compensation for the surface rights.

SEC. 5. This act shall not become effective unless and until (1) the Ute Indian Tribe of the Uintah and Ouray Reservation, in Utah, accepts its provisions, in such manner as may be designated by the Secretary of the Interior, within 1 year after the approval hereof; (2) the Uintah and White River Bands present to the Secretary of the Interior a release, satisfactory to him, of any claims they might have because the Uncompaggre Utes are permitted to share in the benefits of this act; and (3) an amendment to the petition in docket No. 47568 is filed with the Court of Claims limiting the prayer for relief as to the claim presently stated therein to just compensation based upon the value of surface rights only, in accordance with section 4 hereof. Such amendment when filed shall relate back to the date of filing of the original petition in docket No. 47568.

SEC. 6. The land covered by this act is that portion of the one million and ten thousand acres of the former Uintah Reservation added to the Uintah National Forest by Executive order dated July 14, 1905 (34 Stat. 3116), which was not included for payment in the act of February 13, 1931 (46 Stat. 1092), having been separately classified therein as coal lands and described as comprising thirty-six thousand two hundred and thirty-three acres; excluding, however, such portions thereof as having been patented or otherwise disposed of into private ownership without reservation of mineral rights as of the effective date of this act; the said area being more particularly described as follows:

Township 1 south, range 8 west, Uintah meridian, Utah: North half, and the north half of the south half of section 16; section 17; lots 2, 3, and 4, and the southeast quarter of the northwest quarter, and the east half of the southwest quarter, and the northeast quarter of the northeast quarter, and the south half of the northeast quarter, and the southeast quarter of section 18; lot 1, and the northeast quarter of the northwest quarter, and the north half of the northeast quarter of section 19.

Township 1 south, range 9 west, Uintah meridian, Utah: Southeast quarter of the northeast quarter and the half of section 13; south half of the south half of section 14; south half of the south half of section 15; the northwest quarter of the southwest quarter, and the south half of the south half of section 16; southwest quarter of the northeast quarter, and the south half of the northwest quarter, and the south half of section 17; section 18; lots 1, 3, and 4, and the northeast quarter of the northwest quarter, and the east half of the southwest quarter, and the north half of the northeast quarter, and the southeast quarter of section 19; section 20; section 21; section 22; section 23; north half and the southwest quarter, and the northwest quarter of the southeast quarter of section 24; the northwest quarter of the northwest quarter of section 25; the north half of section 26; north half of section 27; the north half of section 28; the north half and the east half of the southwest quarter and the north half of the southeast quarter of section 29; lots 1, 2, and 3, and the east half of the northwest quarter, and the northeast quarter of section 30.

Township 1 south, range 10 west, Uintah meridian, Utah: The south half of the south half of section 10; the south half of the south half of section 11; the south half of the south half of section 12; section 13; section 14; section 15; section 16; the northeast quarter and south half of the northwest quarter, and the south half of section 17; the southeast quarter

ter of the northeast quarter, and the southeast quarter of the southwest quarter, and the southeast quarter of section 18; section 19; section 20; section 21; section 22; section 23; section 24; the north half and the north half of the south half of section 25; section 26; section 27; section 28; section 29; the east half and lots 1, 2, 3, and 4, and the east half of the west half of section 30; lots 1, 2, 3, and 4, and the east half of the west half and the east half of section 31; section 32; the north half and the north half of the southwest quarter of section 33; and the northeast quarter of the northeast quarter, and the west half of the northeast quarter, and the northwest quarter of section 34; the north half of the north half of section 35.

Township 1 south, range 11 west, Uintah meridian, Utah: Lots 1, 2, 3, and 4, and the east half of the west half, and the southeast quarter of section 18; section 19; the northwest quarter of the northwest quarter and the south half of the northwest quarter and the southwest quarter and the west half of the southeast quarter of section 20; the east half and the east half of the northwest quarter and the northeast quarter of the southwest quarter of section 25; the west half of the southwest quarter and the southeast quarter of the southwest quarter and the southwest quarter of the southeast quarter, of section 28; section 29; section 30; the northeast quarter, and lots 1, 2, 3, and 4, and the east half of the west half, and the southeast quarter of section 31; section 32; section 33; section 34; the west half of section 35; the northeast quarter and the east half of the southeast quarter of section 36.

Township 1 south, range 12 west, Uintah meridian, Utah: Lots 1, 2, 3, and 4, and the south half of the south half of section 12; section 13; section 24; the northeast quarter, and the northwest quarter of the southeast quarter of section 25.

Township 2 south, range 10 west, Uintah meridian, Utah: Section 4, section 5; section 6; section 7; section 8; section 9.

Township 2 south, range 11 west, Uintah meridian, Utah: Lots 3 and 4 of section 2; lots 1, 2, 3, and 4, and the south half of the north half and the south half of section 3; lots 1, 2, 3, and 4, and the south half of the north half and the south half of section 4.

SEC. 7. This act is for the purpose of effecting partial settlement of the claims asserted by the Uintah and White River Bands of Ute Indians against the United States in Court of Claims case No. 47568 and shall not be construed as giving recognition to any rights or title of the Uintah, White River, or Uncompaggre Bands of Ute Indians except as provided for in this act.

With the following committee amendments:

Page 1, strike all of line 9 and insert the words "mineral and oil and gas resources of."

Page 2, line 2, following the words "in the" insert the words "United States in trust for the."

Page 2, strike all of lines 3 to 9 inclusive and insert in lieu thereof "and Ouray Reservation in Utah, subject to valid leases, locations, or other claims that are outstanding as of the effective date of this act and that are thereafter maintained in compliance with the laws under which they were initiated, and all rentals, royalties, or other payments."

Page 2, strike all of lines 16 to 22 inclusive and insert in lieu thereof "shall be subject to division between the fullblood and the mixed-blood groups, and shall be available for advance or expenditure, in accordance with the provisions of sections 10 and 11 of the act of August 27, 1954 (68 Stat. 868)."

Page 2, line 24, following the word "Utah," insert the words "acting by the tribal business committee representing the fullblood group, and the authorized representatives of the mixed-blood group (in accordance with

section 10 of the act of August 27, 1954, 68 Stat. 868)."

Page 2, line 25, strike the word "subsurface."

Page 4, strike all of lines 4 to 9 inclusive and insert in lieu "or mining standards, for installation of mining equipment or machinery, building and maintaining roadways, free ingress and egress for mining and removal of subsurface resources to market, and the mining and removal of subsurface resources, including the sinking of shafts, driving tunnels or other standard mining methods, except that strip or hydraulic mining shall be permitted only if, and under conditions, approved by the Secretary of Agriculture."

Page 4, line 17, strike the word "subsurface" and insert the words "mineral and oil and gas."

Page 4, line 21, strike the word "subsurface" and insert the words "mineral and oil and gas."

Page 6, line 8, add the following sentence: "Upon the approval of this act, and pending acceptance or rejection of its provisions by the Indians as provided herein, the land described in section 6 shall be withdrawn from lease, location, entry or any form of disposition under the public land laws except disposition pursuant to valid leases, locations, or other claims that are outstanding as of the date of approval of this act and that are thereafter maintained in compliance with the laws under which they were initiated."

Page 6, line 16, strike the words "thirty-three" and insert "twenty-three."

The committee amendments were agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

DEFINITION OF "NONFAT DRY MILK"

The Clerk called the bill (H. R. 5257) to amend the act entitled "An act to fix a reasonable definition and standard of identity of certain dry milk solids" (21 U. S. C., sec. 321c).

The SPEAKER. Is there objection to the present consideration of the bill?

Mr. LOVRE. Mr. Speaker, I ask unanimous consent that the bill be passed over without prejudice.

The SPEAKER. Is there objection to the request of the gentleman from South Dakota?

There was no objection.

NEW YORK-NEW JERSEY AIR POLLUTION STUDY COMPACT

The Clerk called the resolution (H. J. Res. 511) granting the consent of Congress to the States of New York, New Jersey, and Connecticut to confer certain additional powers upon the Interstate Sanitation Commission, established by said States pursuant to Public Resolution 62, 74th Congress, August 27, 1935.

There being no objection, the Clerk read the resolution, as follows:

Resolved, etc., That the consent of Congress is hereby given to the States of New York, New Jersey, and Connecticut to confer upon the Interstate Sanitation Commission, established by said States pursuant to authority given by Public Resolution 62, 74th Congress, August 27, 1935, the power to make studies of smoke and air pollutions within any or all of the territory served by said Commission, such studies to include surveys

84TH CONGRESS
2D SESSION

H. R. 9593

IN THE SENATE OF THE UNITED STATES

JUNE 6 (legislative day, JUNE 4), 1956

Read twice and referred to the Committee on Government Operations

AN ACT

To simplify accounting, facilitate the payment of obligations,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That (a) the account for each appropriation available for
4 obligation for a definite period of time shall be closed as
5 follows:

6 (1) On June 30 of the second full fiscal year following
7 the fiscal year or years for which the appropriation is avail-
8 able for obligation, the obligated balance shall be transferred
9 to an appropriation account of the agency or subdivision
10 thereof responsible for the liquidation of the obligations, in
11 which account shall be merged the amounts so transferred

1 from all appropriation accounts for the same general pur-
2 poses; and

3 (2) Upon the expiration of the period of availability
4 for obligation, the unobligated balance shall be withdrawn
5 and, if the appropriation was derived in whole or in part
6 from the general fund, shall revert to such fund, but if the
7 appropriation was derived solely from a special or trust
8 fund, shall revert, unless otherwise provided by law, to the
9 fund from which derived: *Provided*, That when it is deter-
10 mined necessary by the head of the agency concerned that
11 a portion of the unobligated balance withdrawn is required
12 to liquidate obligations and effect adjustments, such por-
13 tion of the unobligated balance may be restored to the
14 appropriate accounts: *Provided further*, That prior thereto
15 the head of the agency concerned shall make such report
16 with respect to each such restoration as the Director of
17 the Bureau of the Budget may require.

18 (b) The withdrawals required by subsection (a) (2)
19 of this section shall be made—

20 (1) not later than September 30 of the fiscal year
21 immediately following the fiscal year in which the period
22 of availability for obligation expires, in the case of an
23 appropriation available both for obligation and dis-
24bursement on or after the date of approval of this Act;
25 or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation, which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation; the unobligated balance shall represent the difference between the obligated balance reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)), and the total unexpended balance. Collections authorized to be credited to an appropriation but not received until after the transfer of the obligated appropriation balance as required by subsection (a) (1) of this Act, shall, unless otherwise authorized by law, be credited to the account into which the obligated balance has been transferred, except that any collection made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The withdrawals made pursuant to subsection (a) (2) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned

1 expire for obligation. The withdrawals described in sub-
2 section (b) (2) of this section shall be accounted for and
3 reported as of the fiscal year in which this Act is approved.

4 SEC. 2. Each appropriation account established pursu-
5 ant to this Act shall be accounted for as one fund and shall
6 be available without fiscal year limitation for payment of ob-
7 ligations chargeable against any of the appropriations from
8 which such account was derived. Subject to regulations to be
9 prescribed by the Comptroller General of the United States,
10 payment of such obligations may be made without prior ac-
11 tion by the General Accounting Office, but nothing contained
12 in this Act shall be construed to relieve the Comptroller Gen-
13 eral of the United States of his duty to render decisions upon
14 requests made pursuant to law or to abridge the existing au-
15 thority of the General Accounting Office to settle and adjust
16 claims, demands, and accounts.

17 SEC. 3. (a) Appropriation accounts established pursu-
18 ant to this Act shall be reviewed periodically, but at least
19 once each fiscal year, by each agency concerned. If the un-
20 disbursed balance in any account exceeds the obligated bal-
21 ance pertaining thereto, the amount of the excess shall be
22 withdrawn in the manner provided by section 1 (a) (2) of
23 this Act; but if the obligated balance exceeds the undisbursed
24 balance, the amount of the excess, not to exceed the remain-
25 ing unobligated balances of the appropriations available for

1 the same general purposes, may be restored to such account.
2 A review shall be made as of the close of each fiscal year
3 and the restorations or withdrawals required or authorized
4 by this section accomplished not later than September 30
5 of the following fiscal year, but the transactions shall be
6 accounted for and reported as of the close of the fiscal year
7 to which such review pertains. A review made as of any
8 other date for which restorations or withdrawals are accom-
9 plished after September 30 in any fiscal year shall be ac-
10 counted for and reported as transactions of the fiscal year in
11 which accomplished: *Provided*, That prior to any restora-
12 tion under this subsection the head of the agency concerned
13 shall make such report with respect thereto as the Director
14 of the Bureau of the Budget may require.

15 (b) In connection with his audit responsibilities, the
16 Comptroller General of the United States shall report to the
17 head of the agency concerned, to the Secretary of the Treas-
18 ury, and to the Director of the Bureau of the Budget, respect-
19 ing operations under this Act, including an appraisal of the
20 unliquidated obligations under the appropriation accounts es-
21 tablished by this Act. Within thirty days after receipt of
22 such report, the agency concerned shall accomplish any ac-
23 tions required by subsection (a) of this section which such
24 report shows to be necessary.

1 SEC. 4. During the fiscal year following the fiscal year
2 in which this Act becomes effective, and under rules and
3 regulations to be prescribed by the Comptroller General of
4 the United States, the obligated balance of the appropria-
5 tion account for payment of certified claims established pur-
6 suant to section 2 of the Act of July 6, 1949 (63 Stat.
7 407; 31 U. S. C. 712b), shall be transferred to the related
8 appropriation accounts established pursuant to this Act and
9 the unobligated balance shall be withdrawn.

10 SEC. 5. The obligated balances of appropriations made
11 available for obligation for definite periods of time under
12 discontinued appropriation heads may, upon the expiration
13 of the second full fiscal year following the fiscal year or
14 years for which such appropriations are available for obli-
15 gation, be merged in the appropriation accounts provided
16 for by section 1 hereof, or in one or more other accounts
17 to be established pursuant to this Act for discontinued ap-
18 propriations of the agency or subdivision thereof currently
19 responsible for the liquidation of the obligations.

20 SEC. 6. The unobligated balances of appropriations
21 which are not limited to a definite period of time shall be
22 withdrawn in the manner provided in section 1 (a) (2) of
23 this Act whenever the head of the agency concerned shall
24 determine that the purposes for which the appropriation was
25 made has been fulfilled; or in any event, whenever disburse-

1 ments have not been made against the appropriation for two
2 full consecutive fiscal years: *Provided*, That amounts of
3 appropriations not limited to a definite period of time which
4 are withdrawn pursuant to this section or were heretofore
5 withdrawn from the appropriation account by administrative
6 action may be restored to the applicable appropriation ac-
7 count for the payment of obligations and for the settlement of
8 accounts.

9 SEC. 7. The following provisions of law are hereby
10 repealed:

11 (a) The proviso under the heading "PAYMENT OF CER-
12 TIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90;
13 31 U. S. C. 690) ;

14 (b) Section 2 of the Act of July 6, 1949 (63 Stat. 407;
15 31 U. S. C. 712b), but the repeal of this section shall not
16 be effective until June 30, 1957;

17 (c) The paragraph under the heading "PAYMENT OF
18 CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat.
19 358; 31 U. S. C. 712c) ;

20 (d) Section 5 of the Act of March 3, 1875 (18 Stat.
21 418; 31 U. S. C. 713a) ; and

22 (e) Section 3691 of the Revised Statutes, as amended
23 (31 U. S. C. 715).

24 (f) Any provisions (except those contained in appro-
25 priation Acts for the fiscal years 1956 and 1957) permit-

1 ting an appropriation which is limited for obligation to a
2 definite period of time to remain available for expenditure
3 for more than the two succeeding full fiscal years, but this
4 subsection shall not be effective until June 30, 1957.

5 SEC. 8. The provisions of this Act shall not apply to
6 the appropriations for the District of Columbia or appropria-
7 tions to be disbursed by the Secretary of the Senate or the
8 Clerk of the House of Representatives.

9 SEC. 9. The inclusion in appropriation Acts of provi-
10 sions excepting any appropriation or appropriations from the
11 operation of the provisions of this Act and fixing the period
12 for which such appropriation or appropriations shall remain
13 available for expenditure is hereby authorized.

Passed the House of Representatives June 5, 1956.

Attest:

RALPH R. ROBERTS,

Clerk.

84TH CONGRESS
2^D SESSION

H. R. 9593

AN ACT

To simplify accounting, facilitate the payment of obligations, and for other purposes.

JUNE 6 (legislative day, JUNE 4), 1956

Read twice and referred to the Committee on
Government Operations

AN ACT

to amend the Internal Revenue Code of 1954 to provide for the treatment of certain distributions of stock of a corporation.

Enacted at Washington on June 1, 1954.

Approved: June 1, 1954. By the President.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 8, 1956
For actions of June 7, 1956
84th-2nd, No. 94

CONTENTS

Accounting.....8	Federal Register.....8	Postal rates.....5
ACP.....7	Food and drug.....13	Proclamations.....8
Adjournment.....17	Foreign affairs.....15	REA.....11
Alaska.....12	Foreign aid.....1	Social security.....14
Animal quarantine.....7	Foreign trade.....3,18	Soil Conservation.....7,19
Appropriations.....2	Forest fires.....7	Surplus property.....8
Budgeting.....8	Forestry.....7,12	Tobacco.....7
CCC.....7	Grain.....7	Water, pollution.....5
Census.....7	Lands.....6,7,12,22	conservation.....7
Civil defense.....8	Legislative program.....14	utilization.....9
Cotton.....20	Milk.....16	resources.....23
Electrification.....4	Nominations.....10,11	Wilderness.....22
Farm mortgage.....7	Personnel.....21	Wildlife.....7

HIGHLIGHTS: House debated foreign aid bill. House concurred in Senate amendments to general Government matters appropriation bill. Ready for President. House Committee submitted report on REA and Interior power policies. Senate committee reported bills to authorize USDA land exchanges with Defense, continue ACP, pay expenses of soil-water conservation advisory committee, authorize feeding of CCC grain to waterfowl, amend penal provision of CCC Charter Act, repeal FFMC authority to issue bonds, approve inter state forest fire compact, eliminate requirement for notice of animal quarantine, require census data on class of farm, change date for proclaiming tobacco quota. Senate received nomination of Hamil to REA. Senate committee ordered reported bills to improve budgeting and accounting methods and procedures and to facilitate payment of obligations.

HOUSE

1. FOREIGN AID. Continued debate on H. R. 11356, the mutual security authorization bill. p. 8810
2. APPROPRIATIONS. Concurred in the Senate amendments to H. R. 9536, the general Government matters appropriation bill for 1957. This bill will now be sent to the President. p. 8810
House conferees were appointed on H. R. 10003, the D. C. appropriation bill for 1957. p. 8854 (Senate conferees were appointed June 5.)
3. FOREIGN TRADE. Both Houses received from the President a report on actions under the Reciprocal Trade Agreements Act (H. Doc. 421); to House Ways and Means Committee and Senate Finance Committee. pp. 8755, 8856
Rep. Byrd spoke in opposition to the Organization for Trade Cooperation. p. 8857
4. ELECTRIFICATION. The Government Operations Committee submitted a report on the

effect of Interior Department and REA policies on public-power preferred customers (H. Rept. 2279). p. 8862

5. WATER POLLUTION; POSTAL RATES. The Rules Committee reported resolutions for consideration of H. R. 11380, to readjust postal rates, and H. R. 9540, to extend the Water Pollution Control Act. p. 8857
6. PUBLIC LANDS. The Interior and Insular Affairs Committee reported with amendment H. R. 5712, to provide that the U. S. hold in trust for the Pueblos of Zia and Jemez a part of the Ojo del Espiritu Santo Grant and a small area of public domain adjacent thereto (H. Rept. 2281). p. 8862

SENATE

7. AGRICULTURE AND FORESTRY Committee reported the following bills: (p. 8757)
 - S. 2572, to authorize the interchange of lands between USDA and the Defense Department; without amendment (S. Rept. 2152).
 - S. 2585, to authorize exchange of a land tract at the Beltsville Research Center (S. Rept. 2155); without amendment.
 - S. 3120, to continue for 2 additional years Federal administration of the Agricultural Conservation Program; without amendment (S. Rept. 2154).
 - S. 3314, to authorize payment of expenses of the Advisory Committee on Soil and Water Conservation; without amendment (S. Rept. 2153).
 - S. 2732, to authorize the Interior Department to obtain CCC grain for feeding to waterfowl to prevent depredations; with amendment (S. Rept. 2156).
 - S. 3669, to amend the penal provision of the CCC Charter Act (S. Rept. 2157); with amendment.
 - S. 2530, to repeal the authority of the Federal Farm Mortgage Corporation to issue bonds; with amendments (S. Rept. 2158).
 - S. 3032, approving the Middle Atlantic interstate forest fire protection compact; with amendments (S. Rept. 2159).
 - S. 3046, to eliminate the requirement for certain notices of animal quarantine; with amendments (S. Rept. 2160).
 - S. 3145, to require the Census Bureau to develop farm income data by economic class of farm (S. Rept. 2161); with amendments.
 - S. 3261, to change the date by which certain tobacco quotas must be announced each year; with amendment (S. Rept. 2151).
 - S. 3344, to authorize USDA to convey to Alaska certain lands in Sitka known as Baranof Castle site; without amendment (S. Rept. 2150).
8. GOVERNMENT OPERATIONS Committee ordered reported H. R. 7227, to provide for donation of surplus property for civil defense purposes; H. R. 7855, extending temporary authority of GSA to dispose of surplus property by negotiation to July 31, 1958; S. 3362, to simplify accounting and facilitate the payment of obligations; S. 3897, to improve governmental budgeting and accounting methods and procedures; H. R. 10417, to amend the Federal Register Act regarding public proclamations in a period following an attack upon the U. S.; S. 3843, to adjust the application of Sec. 322 of the Economy Act of 1932 to premises leased for Government purposes. p. D587
9. WATER DEVELOPMENT. Sen. Watkins inserted and commended an address by Reclamation Commissioner Dexheimer on the future of multiple-purpose river development. p. 8803
10. NOMINATION. Sen. Watkins commended the nomination of Fred A. Seaton to be Secretary of the Interior and inserted newspaper editorials on this subject. p. 8806

The committee also reported with amendments S. 3362, to simplify accounting and facilitate the payment of obligations (S. Rept. 2266). p. 9502

11. INTERIOR AND INSULAR AFFAIRS COMMITTEE reported the following bills: p. 9502
S. 3042, without amendment, to amend the Mineral Leasing Act of February 25, 1920, to promote the development of phosphate on the public domain (S. Rept. 2272);
S. 1333, with amendments, to authorize the construction, operation and maintenance of the Hells Canyon Dam between Ida, and Ore. (S. Rept. 2275);
S. 3512, without amendment, to permit under certain circumstances desert land entries on disconnected tracts of lands (S. Rept. 2271);
S. 3743, with amendment, to add certain lands of the Lassen National Forest to the Lassen Volcanic National Park, Calif. (S. Rept. 2264).
12. PROPERTY. The Government Operations Committee reported with amendments H. R. 7227, to authorize the disposal of surplus property for civil defense purposes (S. Rept. 2267). p. 9502
13. FOREIGN AID. The Foreign Relations Committee reported with amendment H. R. 11356, the mutual security program for 1957 (S. Rept. 2273). p. 9502
14. FORESTRY. Passed with amendment S. 2572, to authorize the interchange of national forest lands with military department lands within or adjacent to the national forests. Agreed to an amendment by Sen. Ellender providing that such interchanges shall not become effective until 45 days after submission to the Congress by the respective Secretaries of notice of intention to make the interchange. p. 9509
15. FORESTRY. The Interior and Insular Affairs Committee ordered reported without amendment S. J. Res. 139, commemorating the 50th anniversary of the first conference of State governors for the protection of natural resources of the U. S. p. D645
16. GOVERNMENT SECURITY. Received from the Commission on Government Security a proposed bill to extend the time for the Commission to file its final report; to Government Operations Committee. p. 9497
17. PUBLIC POWER. Sen. Langer inserted a number of resolutions of the American Public Power Assoc. relating to various aspects of public power policies. p. 9497
18. DROUGHT RELIEF. Sen. Symington urged emergency drought relief for Missouri, and criticized this Department for delay in furnishing such relief. p. 9506

ITEMS IN APPENDIX

19. INFORMATION. Sen. Kennedy inserted two newspaper articles favoring the creation of a National Library of Medicine to "promote the progress of medicine and to advance the national health and welfare." p. A4847, A4851
20. FOREIGN AID. Sen. Langer inserted a newspaper article, "House Revolt on Foreign Aid--Senate Also Expected to Back Slash Despite Lisenhower's and Dulles' Pleas." p. A4851
Sen. Jenner inserted an editorial opposing foreign aid and saying "...it should not be cut by \$1 billion, as proposed by the House Foreign Affairs

Committee. It should be completely abolished." p. A4853

Rep. Smith, Wis., inserted an editorial which quoted Sen. Ellender as saying "the American people are sour on foreign aid." p. A4862

21. COTTON. Rep. Hagen spoke in favor of his bill H. R. 11478 which would provide for a program to encourage the utilization of domestic fiber cotton, and inserted a newspaper article in favor of this proposed legislation. p. A4855
22. FAMILY FARM. Sen. Jenner inserted a newspaper article, "Jenner Would Help Family Farmers," and stated that "this editorial vigorously supports our historic national policy of strengthening the family farm, as the basis of our political, economic, and social system"; and an editorial, "Foreign Aid Contributes to Farmers' Plight." p. A4857
23. LANDS. Extension of remarks of Rep. Engle in support of a bill to require the military departments to get approval from Congress for any withdrawal of public lands in excess of 5,000 acres, and his insertion of a newspaper article, "Landgrabbing Row Has Services Fuming." p. A4875
24. DROUGHT RELIEF. Rep. Hull discussed the drought crisis in Mo., criticized this Department's drought relief program and stated that "...upon the basis of a casual and partial investigation by a lone subordinate, the Department of Agriculture concluded that the situation was not sufficiently acute to warrant relief," and inserted several newspaper articles on this subject. p. A4878

BILLS INTRODUCED

25. SOIL CONSERVATION. H. R. 11831, by Rep. Cooley and H. R. 11833, by Rep. Hope, to amend the Soil Conservation and Domestic Allotment Act and the Agricultural Adjustment Act of 1938 to provide for a Great Plains conservation program; to Agriculture Committee.
26. PERSONNEL. H. R. 11837, by Rep. McCarthy, to amend the Hatch Act to permit all officers and employees of the Government to exercise the full responsibility of citizenship and to take an active part in the political life of the United States; to House Administration Committee.
H. R. 11841, by Rep. Rees, to protect the security of the United States by preventing the employment by the United States of persons found to be disloyal to the United States; to Post Office and Civil Service Committee. Remarks of author, p. 9543, A4866
27. WILDLIFE; CHEMICALS. H. R. 11839, by Rep. Metcalf, to authorize and direct the Secretary of the Interior to undertake continuing studies of the effects of insecticides, herbicides, and fungicides upon fish and wildlife for the purpose of preventing losses of those invaluable natural resources following spraying, and to provide basic data on the various chemical controls so that forests, croplands, and marshes can be sprayed with minimum losses of fish and wildlife; to Merchant Marine and Fisheries Committee. Remarks of author, p. A4873
28. SMALL BUSINESS. H. R. 11846, by Rep. Roosevelt, to amend section 3 of the Clayton Act to free those in commerce from restraints of trade and to allow small business men freedom of choice in the conduct of their respective businesses as independent enterprises; to Judiciary Committee. Remarks of author, p. A4872
29. PERSONNEL. S. 4076, by Sen. McClellan, to provide for the appointment of the chief legal officers of certain departments in the executive branch by the

SIMPLIFYING ACCOUNTING, FACILITATING THE PAY-
MENT OF OBLIGATIONS

JUNE 19, 1953.—Ordered to be printed

Mr. KENNEDY, from the Committee on Government Operations,
submitted the following

REPORT

[To accompany S. 3362]

The Committee on Government Operations to whom was referred the bill (S. 3362) to simplify accounting, facilitate the payment of obligations, and for other purposes, having considered the same, report favorably thereon, with amendments, and recommend that the bill as amended do pass.

The amendments are as follows:

1. Page 1, line 3, strike out "except as otherwise provided by law,".
2. Page 1, line 4, strike out "of" and insert in lieu thereof "for".
3. Page 1, line 8, strike out "activity" and insert in lieu thereof "agency or subdivision thereof".
4. Page 2, line 6, strike out the period and insert in lieu thereof a colon and the following:

Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this Act: *Provided further*, That the head of the agency concerned shall make a report with respect to each such restoration to the Chairmen of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget.

5. Page 2, line 20, after the word "account", insert "as of the close of the fiscal year".

6. Page 2, lines 22 and 23, strike out "as of the close of the fiscal year".

7. Page 3, line 10, strike out "required" and insert in lieu thereof "made".

8. Page 3, line 11, strike out "subsection (a)" and insert in lieu thereof "subsections (a) and (b)".

9. Page 4, lines 7 and 8, strike out "activity responsible for the liquidation of the obligations chargeable to such accounts" and insert in lieu thereof "agency concerned".

10. Page 4, line 13, strike out "shall" and insert in lieu thereof "may".

11. Page 6, line 9, strike out "activity" and insert in lieu thereof "agency or subdivision thereof".

12. Page 6, line 16, strike out "or will not be undertaken or continued".

13. Page 7, between lines 15 and 16, add a new subsection to read:

(f) Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

14. Page 7, line 17, strike out the period and insert in lieu thereof:

or to the appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

15. Page 7, following line 17, add a new section to read:

SEC. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

COMMITTEE ACTION ON AMENDMENTS

The amendments adopted by the committee are in accord with the recommendations made by agency representatives during the hearings on this bill. For the most part the changes accepted by the committee are editorial or of a clarifying nature intended to more fully reflect the purpose and intent of the bill.

Amendment No. 4 which begins on page 2, line 6 was developed by the Bureau of the Budget and the Department of Defense for the purpose of providing more flexibility in the accounting for funds. The long lead time required for procurement of certain types of supplies, and in certain instances, price redetermination and escalation clauses in contracts compel the departments to make adjustments in the obligated balances. For this reason the Department of Defense believed that an amendment is necessary to restore that portion of account balances as is necessary to liquidate delayed bills. The committee accepted this proposal, but insisted that such restorations be held to a minimum and, to assure that the authority not be abused, the committee added a further proviso to the amendment requiring each agency to report each restoration to the chairmen of the Committees on Appropriations of the Senate and House of Representatives, to the Comptroller General and to the Director of the Bureau of the Budget.

The committee approved an amendment adding a new paragraph (f) to section 7 of the bill. This amendment was developed by the Bureau of the Budget for the purpose of repealing certain laws which make some appropriations available for expenditure purposes for periods longer than the normal 2-year period after the period for which the appropriation was made.

At the present time there are some cases where existing provisions of substantive law continue the availability of appropriations for expenditure purposes for periods longer than the normal 2-year period after the period for which the appropriations are made. It is desirable, therefore, to bring such appropriations under the provisions of this bill in order to provide the authority to make payments subsequently. An example is the provision for certain research appropriations in the Agricultural Marketing Act of 1946. The language which the committee has approved for deletion by amendment No. 1 would exempt such cases from the provisions of the bill, whereas the substitute (amendment No. 13) would embrace such cases within the terms of the bill by repealing the special provisions providing extended availability for expenditure. Like the provision repealing the general authorization for extended availability for expenditure (subsec. (b) of sec. 7), the suggested language would not be effective until June 30, 1957. Also, the new language would not repeal provisions for extended expenditure availability contained in 1956 or 1957 appropriation acts, but would leave the matter of extended expenditure availability for appropriations to be considered individually by the Congress in acting on the 1958 budget estimates and appropriation acts.

The amendment to section 8 provides for exempting from the provisions of this bill appropriations disbursed by the Secretary of the Senate and the Clerk of the House of Representatives.

A new section 9, adopted by the committee, provides that the Congress may consider each year the desirability of exempting any appropriation or appropriations from the provisions of this bill and to so provide in appropriation acts without such provisions being subject to a point of order.

GENERAL STATEMENT

Under present law (31 U. S. C. 712b), unexpended balances of appropriations with limited fiscal year availability "lapse" or cease to be available to the agencies to which they are provided, at the end of two full fiscal years following the fiscal year or years for which appropriated. At that time, such balances are transferred to a consolidated Treasury Department appropriation account known as "Payment of certified claims."

Bills of creditors which have not been paid before the appropriations chargeable therewith have lapsed are liquidated from the "Payment of certified claims" account. However, as prerequisites to payment, the Comptroller General of the United States must certify that the bills are lawfully due; that they are chargeable to appropriations which have lapsed; and that the balances of the appropriations against which the obligations were originally incurred are sufficient to make such payments.

Since the agencies which procured the goods and services for which payment is sought are acquainted with the attendant facts and circumstances, it is necessary for the General Accounting Office to secure from such agencies reports bearing on the validity of the obligations, the appropriations involved, and the amounts recommended for payment, if any. Where the transactions are routine undisputed bills, as is generally the case, the settlement processes of the General Accounting Office necessarily duplicate the work already performed by the debtor agencies and delay the payment of the Government's obligations without any substantial added protection to the Government.

The bill authorizes the agencies of the Government to pay undisputed bills chargeable to lapsed appropriations in precisely the same manner as bills payable from currently available appropriations. This objective will be accomplished by repealing existing requirements that all obligations chargeable to lapsed appropriations shall be certified by the General Accounting Office in advance of payment; by permitting agencies to retain obligated balances of appropriations made to them; and by granting, under regulations to be prescribed by the Comptroller General, authority to the agencies to pay prior year obligations from the retained balances through regular disbursing channels, subject of course to post audit by the General Accounting Office.

When S. 3362 is enacted, it is estimated that from 40,000 to 50,000 cases a year which now are required to be processed by the General Accounting Office can be paid directly by the agencies. As a result, claims adjudicators and supporting personnel of the General Accounting Office now engaged in such work will be available for assignment to more productive work. Paperwork and time lags will be substantially reduced. In addition, the General Accounting Office will be able to discontinue the maintenance of approximately 35,000 detailed ledgers of account pertaining to lapsed appropriations. It is anticipated that enactment of the bill will result eventually in direct savings in the General Accounting Office approximating \$600,000 annually. Savings will also be effected in the agencies concerned.

The bill will not affect the responsibility of the General Accounting Office to adjudicate claims involving doubtful questions of law or fact. Such claims will continue to be sent to the General Accounting Office for settlement.

The proposed legislation will reduce the carryover of unexpended balances in appropriations. At present, the entire balance of each annual appropriation is carried in the account of the agency for 2 years after the appropriation has ceased to be available for obligation. Under the provisions of S. 3362, the obligated balance of an appropriation will be transferred to an appropriation account consisting of the obligated balances of all prior appropriations granted for the same general purposes. The unobligated balance will be withdrawn. These transfers will be based on reports of obligated balances which all agencies are now required to make under the provisions of section 1311 of the Supplemental Appropriation Act, 1955.

The bill recognizes that due to events which may occur after the reporting date, it is not always possible to report obligated balances of appropriations with precise accuracy. In consequence, amounts ultimately required for liquidation of obligations may fluctuate. The bill provides for this contingency by permitting agencies to utilize savings resulting when obligations are liquidated at less than the

reported obligations to offset extra costs occasioned by underestimating obligations; by authorizing agencies to draw on currently available appropriations when necessary to meet obligations against prior years' appropriations; and by permitting restoration of amounts withdrawn from the appropriations as unobligated, when determined necessary by the head of the agency concerned to meet obligations made in prior years. The committee is of the opinion that the provision permitting restoration of amounts previously withdrawn will seldom, if ever, be invoked. However, in the event it is invoked, the bill provides that a complete report of each such restoration must be made to the chairmen of the Committees on Appropriations of the Senate and House of Representatives, the Comptroller General of the United States, and the Director of the Bureau of the Budget. These features of the bill should afford sufficient latitude to the agencies to effect payments to creditors without undue delay.

An additional benefit will be afforded by the bill. At present, liquidations of outstanding obligations against lapsed appropriations are budgeted and recorded as expenditures of the Treasury Department rather than of the agencies which received the goods and services. This procedure overstates the expenditures of the Treasury Department and understates the expenditures of the agencies which incurred the obligations by millions of dollars each year. Under S. 3362 such expenditures will be recorded and reported as expenditures of the individual agencies which received the goods or services.

HOOVER COMMISSION

The Hoover Commission and its task force recommended in its report on budget and accounting that the various agencies of the Government be authorized to settle delayed-bills without prior approval of the General Accounting Office and that one account be established for controlling the amount available for liquidation of valid obligations.

The Hoover Commission's recommendation follows:

That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations. (Recommendation No. 17.)

The Commission further stated that—

All agency disbursements must be related to a legal appropriation. Where the appropriations are annual appropriations (as distinguished from no-year appropriations) the agencies are authorized to make payments therefrom during the fiscal year for which appropriated or during the succeeding 2 fiscal years. This results in keeping separate accounts for appropriations, allotments, suballotments, obligations and related cash payments for each of 3 years. The effect is an unnecessary complication in the accounting for disbursements in executive agencies and in the separate accounts maintained at the Treasury.

The agencies should be authorized to merge the balance of unliquidated obligations under any one appropriation title with the latest annual appropriation under that same title.

Annual appropriations which are not obligated within the appropriation year cease to be available and at the end of such year would be eliminated. The remaining balances should be available for liquidation of legal liabilities until expended or written off.

At the present time vouchers which are submitted to the respective agencies for payment after the appropriations have lapsed are referred to the General Accounting Office for review and clearance before submission to the Treasury Department. These vouchers are commonly referred to as "claims"; however, they are not a "claim" as that term is generally used in the legal profession, but merely bills which were submitted for payment after the appropriation has lapsed.

The Hoover Commission considered this procedure of handling so-called claims or delayed bills and made the following recommendation:

That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as "claims" to the General Accounting Office, but should be settled within the agencies. (Recommendation No. 18.)

Section 305 of the Budget and Accounting Act of 1921 provides: All claims and demands whatever by the Government of the United States or against it, * * * shall be settled and adjusted in the General Accounting Office.

There are some exceptions. These include the Internal Revenue Service for income tax matters; the Railroad Retirement Board for pension claims; the Social Security Administration for old-age and survivor insurance claims; and the Veterans' Administration for benefit payments. Otherwise, "claims" made against an executive agency are reviewed by the agency concerned and then submitted to the General Accounting Office for settlement. Where the claim relates to an open appropriation it is, if approved by the General Accounting Office, returned to the executive agency for payment. Requests for payment under lapsed appropriations are currently designated as "claims" and hence are referred to the General Accounting Office. Such claims are, if approved by the General Accounting Office, recorded in the records of that Office. They are then referred to the Treasury Department for payment from the "payment of certified claims" account.

During 1954, 38,000 of the claims received by the General Accounting Office related to lapsed appropriations. Approximately 28,000 of them did not involve any doubtful or complex matter. It is apparent that under existing procedure the General Accounting Office is engaged in examining and settling as "claims" many requests for payment which are routine and involve no questions of law or fact. Substantial economies would be obtained if the agencies were authorized to make direct settlement of claims without their prior submission to the General Accounting Office, except in those cases involving questions of law or fact. If this were done, unexpended balances of closed appropriations which are nor-

mally transferred to the "payment of certified claims" account maintained at the Treasury Department would be retained in the agencies. Agency procedures in settling claims would, of course, be subject to review and audit by the General Accounting Office.

S. 3362 will substantially carry out the objectives of these recommendations. The only essential difference is that obligated balances for prior years would be consolidated in separate accounts for the same general purposes rather than brought forward and merged with the current appropriation accounts of the agencies. If the prior-year obligations were merged with the current appropriations, any savings resulting from liquidation of obligations would be available to augment the current year appropriation. The committee feels it is preferable to retain these unliquidated obligations in separate accounts so that such savings cannot be used to augment the current appropriation.

The bill, as reported, has been approved by the Bureau of the Budget, the Secretary of the Treasury, the Comptroller General of the United States, and the Department of Defense.

SECTION-BY-SECTION ANALYSIS

Section 1

Subsection (a) provides that each appropriation available for obligation for a definite time period—annual and multiyear appropriations—shall, after the expiration of its obligational availability, be disposed of as follows: The obligated balance shall be transferred to an appropriation account consisting of the obligated balances of all appropriations granted for the same general purposes. The unobligated balance shall be withdrawn and shall revert to the general fund of the Treasury, unless the appropriation is derived in its entirety from a special or trust fund in which event it shall revert to the fund from which derived. The effect of this is to combine, in a single appropriation account of the agency or subdivision thereof responsible for the liquidation of liabilities, the obligated balances of all appropriations for the same general purposes. For example, the obligated balances of all appropriations for "Salaries and expenses, Forest Service," except the one currently available for obligation, would be merged in one account. The subsection also authorizes the restoration of amounts withdrawn when determined necessary by the head of the agency concerned and requires that such restorations be reported to the chairmen of the Committees on Appropriations of the Senate and House of Representatives, the Comptroller General of the United States, and the Director of the Bureau of the Budget.

Subsection (b) contemplates that if enacted by June 30, 1956, annual and multiyear appropriations for 1956 and subsequent years will be disposed of not later than September 30 of the fiscal year following that in which the period of obligation expires. Appropriations expiring in 1954 and 1955 would be disposed of not later than September 30, 1956, along with appropriations for the fiscal year 1956. Obligated balances of appropriations for fiscal years prior to 1954 would be merged in the new accounts under the provisions of section 4. (If enacted later than June 30, 1956, the dates used here would be changed accordingly.)

Subsection (c) provides that the amount transferred to the appropriation account shall not exceed the net obligated balances as shown on reports made under section 1311 of the Supplemental Appropriation Act, 1955, and that receipts authorized to be credited to an appropriation which are not received until after such appropriation has expired for obligation will be credited to the appropriation account to which the obligated balance has been, or will be transferred. Discretionary authority is conferred on the General Accounting Office to deposit collections made for other agencies into miscellaneous receipts.

Subsection (d) contemplates on a permanent basis that transfers and withdrawals made not later than September 30 of the fiscal year following the fiscal year in which the appropriations expire for obligation will be accounted for and reported as of the fiscal year in which the appropriations expire for obligation. Appropriations which have expired for obligation prior to the time this bill becomes law but which are still available for expenditure will be transferred and withdrawn as of the fiscal year (1956) in which the bill is approved.

Section 2

This section authorizes the appropriation accounts established pursuant to the act to be used for payment of obligations chargeable against any of the appropriations from which such accounts were derived. The accounts are to be available without fiscal year limitation, and subject to regulations to be prescribed by the Comptroller General of the United States, payment of the obligations may be made through regular disbursing channels without prior action by the General Accounting Office. It will not be necessary to relate payments from the merged accounts to the specific balances of appropriations transferred to the account. It is further provided, however, that nothing in the act shall be construed to relieve the Comptroller General of his duty to render decisions upon requests made pursuant to law, nor to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts. The agencies will be enabled under the act to pay claims which have heretofore been settled by the General Accounting Office solely because they were payable from lapsed appropriations. The subsection will otherwise preserve the jurisdiction of the General Accounting Office, and the Comptroller General will be able to require that any particular claim or classes of claims, such as doubtful claims or claims received in the administrative office more than a specific number of years after the claim first accrued, be paid only after settlement in the General Accounting Office whenever he deems such action desirable.

Section 3

Subsection (a) provides for periodic reviews of the accounts established pursuant to the Act by the agencies concerned. When such reviews disclose that the undisbursed balance exceeds the obligated balance, the amount of the excess shall revert, as the case may be, to the general, special, or trust fund from which derived, but if it is found on review that the obligated balance exceeds the undisbursed balance, the amount necessary to supply the deficiency may be transferred from the account currently available for the same general purposes. Such reviews, together with the transfers and withdrawals found to be necessary, shall be accomplished at least annually at the end of the year. Action taken pursuant to reviews made as of the close of the fiscal year

must be completed by September 30 of the following fiscal year and transfers or withdrawals accounted for and reported as of the close of the fiscal year to which the year-end review pertains. Transfers and withdrawals made pursuant to reviews made at other than the close of the fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

Subsection (b) authorizes transfers from the appropriation currently available for the same general purposes whenever there are insufficient funds in the account to pay an obligation. When the deficiency is caused by failure to collect receivables, the amount may be returned to the current appropriation when the receivables are collected. This provision is made in order that an agency may promptly pay obligations. Action under this subsection would be based upon a comparison of the undisbursed balances with the amount of vouchers ready for payment, and differs from subsection (a), which contemplates transfer action after a comparison of undisbursed balances with net obligated balances (obligations outstanding less receivables).

Subsection (c) contemplates reviews by the Comptroller General of operations under the act. Such reviews will include appraisal of the unliquidated obligations under the appropriation accounts established thereunder and the Comptroller General's findings will be reported to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget. Within 30 days following receipt of the Comptroller General's report, the agency head is required to accomplish the transfers or withdrawals which the report indicates are necessary, if such transfers or withdrawals have not already been made.

Section 4

This section provides that not later than the fiscal year following that in which the act becomes effective, and under rules and regulations prescribed by the Comptroller General, the unexpended balance of the appropriation account for payment of certified claims established pursuant to section 2 of the act of July 6, 1949 (31 U. S. C. 712b), shall be disposed of in the same manner as the balances of appropriations available for obligation for a definite period of time. This will permit payment, under the procedures established by this act, and from the accounts established under this act, of claims arising under appropriations for fiscal years prior to 1954, the first year to be covered by this act.

Section 5

This section authorizes the transfer of amounts pursuant to section 1 of the act from nonrecurring or discontinued fiscal year appropriations to one or more appropriation accounts at the discretion of the head of the agency concerned. An example of the type of annual appropriation covered by this section would be "Salaries and expenses, Civil Aeronautics Administration" for the fiscal year 1955, which was eliminated in the fiscal year 1956 as a result of realinement of the agency's appropriation structure. It is contemplated that such mergers would follow generally the budget presentation; that is, where a discontinued title is merged with a new title in the budget, the account would similarly be merged; where a discontinued title is merged with

another discontinued title in the budget, the accounting practice would follow accordingly.

Section 6

This section authorizes the withdrawal or reversion, as the case may be, of unobligated balances of no-year appropriations whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled or, in any event, whenever disbursements have not been made against the appropriation for 2 consecutive fiscal years. Authority is granted for the restoration of any amounts heretofore or hereafter withdrawn for the payment of obligations and the settlement of accounts, but it is contemplated that restorations would not be needed frequently.

Section 7

This section provides for the repeal of certain provisions of law which no longer will be necessary because of the enactment of this act. These are:

(a) The proviso under the heading "Payment of Certified Claims" in the act of April 25, 1945 (59 Stat. 90 (31 U. S. C. 690)). This provides that collections otherwise to be deposited to the credit of a lapsed appropriation shall be deposited into the Treasury as miscellaneous receipts. Under the procedure proposed in the bill, such collections will be deposited to the credit of the appropriation account which has received the balance of the appropriation to which the collection would otherwise be credited.

(b) Section 2 of the act of July 6, 1949 (63 Stat. 407 (31 U. S. C. 712b)). This section established the consolidated appropriation account for "Payment of certified claims." The consolidated appropriation accounts established pursuant to this act will be available for payment of claims for which this account was established. However, in order to permit final settlement of claims now in process under existing procedures, this repeal would not be effective until June 30, 1957. On or before that date, the balance in the existing consolidated account will be transferred to the accounts established under this act.

(c) The paragraph under the heading "Payment of Certified Claims" in the act of June 30, 1949 (63 Stat. 358 (31 U. S. C. 712c)). This paragraph provides a permanent appropriation for payment of claims (not to exceed \$500 in any one case) which would otherwise be chargeable to lapsed appropriations. The need for this appropriation was eliminated by the act of July 6, 1949 (63 Stat. 407 (31 U. S. C. 712b)), and the appropriation will not be used under the procedures established by this act.

(d) Section 5 of the act of March 3, 1875 (18 Stat. 418 (31 U. S. C. 713a)). This provision authorizes the Secretary of the Treasury to make certain entries on the books of the Department to effect settlement of accounts of disbursing officers involving appropriations carried to the "surplus fund." The accounts established by this act will hereafter be available without fiscal year limitation for such purposes.

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715). This provision permits balances of appropriations which have remained on the books of the Treasury without being drawn against for 2 years to be closed if it appears that the balance will not be required in the settlement of any accounts pending in the General

Accounting Office. This section is superseded by section 6 of this act.

(f) This subsection, effective June 30, 1957, repeals any provision of law making an appropriation available for expenditure for any period beyond that for which it is available for obligation, except those contained in appropriation acts for the fiscal years 1956 and 1957. Thus, in the absence of any exceptions in the appropriation acts for the fiscal years 1956 and 1957 or in provisions of law hereafter enacted, all appropriations available for obligation for a definite period of time after June 30, 1957, shall expire for expenditure purposes at the same time they expire for obligation purposes and subsequent expenditures will be made from the accounts established pursuant to this act.

Section 8

This section excludes the District of Columbia from the provisions of this act, as well as appropriations disbursed by the Secretary of the Senate and the Clerk of the House of Representatives.

Section 9

This section authorizes the inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and the fixing of the period for which such appropriation or appropriations shall remain available for expenditure.

AGENCY COMMENTS

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 16, 1956.

HON. JOHN F. KENNEDY,
*Chairman, Subcommittee on Reorganization,
Committee on Government Operations,
United States Senate, Washington 25, D. C.*

MY DEAR MR. CHAIRMAN: In response to conversations which staff of the Bureau have had with staff of your committee, we are submitting views and comments on S. 3362, a bill to simplify accounting, facilitate the payment of obligations, and for other purposes.

This bill would substantially carry out the objectives of recommendations Nos. 17 and 18 of the Commission on Organization of the Executive Branch of the Government in its report on budget and accounting.

We heartily endorse the objectives of the bill which would bring about improvements and simplifications in accounting and in the procedure for the payment of obligations against expired appropriations. More specifically, some of the major benefits which would result from the bill are as follows:

1. At the present time accounts payable relating to obligations incurred under appropriations which expired for obligation purposes more than 2 years earlier are examined both by the agency concerned and by the General Accounting Office before payment is made. The bill would authorize the Comptroller General to prescribe by regulations the conditions under which such payments may be made without prior review by the General Accounting Office. This would bring about savings by eliminating the duplicate review. Also payments could be made more promptly.

2. The entire balance of each appropriation (both the obligated and the unobligated portion) is now carried in the accounts of the agencies for 2 years after the appropriation expires for obligation purposes. Under the bill the unobligated balances remaining at the close of each fiscal year would be withdrawn from expired appropriations within 3 months thereafter, thus reducing the carryover of unexpended balances.

3. Individual appropriation accounts are now kept by the agencies on a formal basis for 2 years after the appropriations expire for obligation purposes and thereafter for at least 8 more years on a memorandum basis. In addition, after 2 years, the General Accounting Office maintains the individual appropriation accounts in order to see that there are available appropriation balances before claims are certified for payment. This bill would bring about a large reduction in the number of accounts to be maintained both by the agencies and by the General Accounting Office. Under its provisions the obligated balances of expired accounts for prior years for the same general purposes would be merged so that usually each current year appropriation account would have a counterpart for prior year items. For the General Accounting Office alone, it is estimated that about 35,000 accounts could be eliminated.

4. Under present practices payments made from appropriations which have expired for obligation purposes for more than 2 years are charged as expenditures to the certified claims account maintained by the Treasury Department. The result is that such expenditures are reported as expenditures of the Treasury Department although the benefits were received by other agencies. Thus several hundred millions of dollars are budgeted and reported as a cost of the function of General Government when actually a large part of this amount is for major national security and other functions. The bill would correct this situation. Expenditures would be recorded and reported by the individual agencies and for the functions which received the benefits.

5. The bill provides that the Comptroller General shall, in connection with his audit responsibilities, make an appraisal of the unliquidated obligations. This emphasizes the importance of the independent review by the Comptroller General in order to verify the accuracy of the accounts.

In the interests of clarifying and otherwise improving the bill, we would suggest consideration of the following amendments:

1. Delete the words "except as otherwise provided by law" on page 1, line 3, and in lieu thereof add the following new paragraph to the repeals on page 7, section 7:

"(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957."

At the present time there are some cases where existing provisions of substantive law continue the availability of appropriations for expenditure purposes for periods longer than the normal 2-year period after the period for which the appropriations are made. It is desirable, therefore, to bring such appropriations under the provisions of this bill in order to provide the authority to make payments subsequently. An example is the provision for certain research appropri-

ations in the Agricultural Marketing Act of 1946. The language, which we suggest for deletion above, would exempt such cases from the provisions of the bill whereas the substitute would embrace such cases within the terms of the bill by repealing the special provisions providing extended availability for expenditure. Like the provision repealing the general authorization for extended availability for expenditure (subsec. (b) of sec. 7), the suggested language would not be effective until June 30, 1957. However, the suggested language would not repeal provisions for extended expenditure availability contained in 1956 or 1957 appropriation acts, but would leave the matter of extended expenditure availability for these appropriations to be considered individually in acting on 1958 budget estimates and appropriation acts.

2. Delete the word "activity" on page 1, line 8, and substitute "agency or subdivision thereof." We believe the substitute would clarify the meaning.

3. On page 2, lines 22 and 23, delete the words "as of the close of the fiscal year" and insert the same words after the word "account" on page 2, line 20. This change would clarify the point that the reviews of the accounting records required by section 1311 and the related reports pertain only to the obligated balance as of the close of the fiscal year.

4. Delete the words "required pursuant to subsection (a)" on page 3, lines 10 and 11, and substitute "made pursuant to subsections (a) and (b)." This would make it clear that September 30 is intended as the final closing date for action to be taken under section 1 (d).

5. Delete the words "activity responsible for the liquidation of the obligations chargeable to such accounts" on page 4, lines 7 and 8, and substitute "agency concerned." We believe "agency" would be more meaningful than "activity" and that the remainder of the clause is not necessary.

6. Delete the word "activity" on page 6, line 9, and substitute "agency or subdivision thereof" for the reason noted in 2 above.

7. Delete the words "or will not be undertaken or continued" on page 6, lines 16 and 17. These words might carry the implication that the heads of the agency concerned could determine whether or not to carry out work specifically authorized by the Congress.

8. On page 7, add the following new section:

"SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

This new section provides that the Congress may consider each year the desirability of exempting any appropriation or appropriations from the provisions of this bill and so provide in appropriation acts without such provisions being subject to a point of order.

The amendments suggested above have been discussed with staff of the Treasury Department and the General Accounting Office, who concur therein. With these amendments, we strongly recommend the enactment of S. 3362, which would improve fiscal operations and bring about economies.

Sincerely yours,

PERCIVAL BRUNDAGE,
Acting Director.

TREASURY DEPARTMENT,
Washington, March 19, 1956.

HON. JOHN L. McCLELLAN,
*Chairman, Committee on Government Operations,
United States Senate, Washington 25, D. C.*

MY DEAR MR. CHAIRMAN: Reference is made to your letter requesting the views of the Treasury Department on S. 2678, a bill relating to the payment of certain claims against the Government where the appropriations therefor have lapsed.

S. 2678 is intended to implement recommendation No. 18 of the Report on Budget and Accounting of the Commission on Organization of the Executive Branch of the Government, and would permit payment by any executive department or agency of a claim against it with respect to which the appropriation therefor has lapsed, without prior review and settlement by the General Accounting Office. The Treasury Department is very much in accord with the objectives of this bill, but would like to see provision made also for certain related accounting procedures. The Bureau of the Budget, the General Accounting Office and the Treasury Department have studied the situation and, in cooperation with the staff of your committee, developed a draft of a bill to be proposed as a substitute for S. 2678. This culminated in the provisions of S. 3362, also pending in your committee, which is intended to implement both recommendations No. 17 and No. 18 in the Report on Budget and Accounting of the Commission on Organization of the Executive Branch of the Government, and the Treasury Department would prefer to see this bill enacted.

Further joint consideration has been given to certain technical amendments to S. 3362 in the interest of clarification, which are being presented by the Bureau of the Budget. With these amendments, the Treasury Department strongly recommends the enactment of S. 3362, which would simplify the payment of claims, facilitate accounting for expenditures against expired appropriations, and improve government-wide accounting and financial reporting of receipts and expenditures.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

W. RANDOLPH BURGESS,
Acting Secretary of the Treasury.

STATEMENT OF ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER
GENERAL, BEFORE THE REORGANIZATION SUBCOMMITTEE OF THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS ON S. 3362

Mr. Chairman and members of the subcommittee: We appreciate the opportunity to appear before you to discuss S. 3362 which, if enacted, will bring about substantial accounting improvements in the Government and will greatly simplify and facilitate the payment of amounts due to creditors of the Government which are chargeable to lapsed appropriations.

The Hoover Commission, in its report on budget and accounting, made two recommendations in the particular area covered by S. 3362.

These are:

Recommendation No. 17: "That each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for the liquidation of valid obligations."

and

Recommendation No. 18: "That vouchers which are otherwise valid but as to which appropriations have lapsed should not be referred as 'claims' to the General Accounting Office but should be settled within the agencies."

S. 3362 will substantially carry out the objectives of recommendations Nos. 17 and 18, the only essential difference being that obligated balances for prior years would be consolidated in separate accounts, rather than brought forward to the current appropriation accounts of the agencies.

S. 3362 authorizes the agencies of the Government to pay undisputed bills chargeable to lapsed appropriations in precisely the same manner as bills payable from currently available appropriations. This objective will be accomplished by repealing existing requirements that all obligations chargeable to lapsed appropriations shall be certified by the General Accounting Office in advance of payment; by permitting agencies to retain obligated balances of appropriations made to them; and by granting, under regulations to be prescribed by the Comptroller General, authority to the agencies to pay prior-year obligations from the retained balances through regular disbursing channels.

In the event S. 3362 is enacted, it is estimated that from 40,000 to 50,000 cases a year which under present law are required to be processed by the General Accounting Office can be paid directly by the agencies. As a result, claims adjudicators and supporting personnel of the General Accounting Office now engaged in such work will be available for assignment to more productive work. Paperwork and time lags will be substantially reduced. In addition, the General Accounting Office will be able to discontinue the maintenance of approximately 35,000 detailed ledgers of accounts pertaining to lapsed appropriations.

The bill will not affect the responsibility of the General Accounting Office to adjudicate claims involving doubtful questions of law or fact. Such claims will continue to be sent to the General Accounting Office for settlement.

In addition, the proposed legislation will reduce the carryover of unexpended balances in appropriations. At present, the entire balance of each annual appropriation is carried in the account of the agency for 2 years after the appropriation is no longer available for obligation purposes. Under the provisions of S. 3362, the obligated balance of an appropriation will be transferred to an appropriation account consisting of the obligated balances of all prior appropriations granted for the same general purpose. The unobligated balance will revert to the general fund of the Treasury. These transfers will be based on reports of obligated balances which all agencies are now required to make under the provisions of section 1311 of the Supplemental Appropriation Act, 1955.

It is recognized that it is not always possible to report obligated balances of appropriations with precise accuracy, due to occurrences which may come about after the reporting date. Amounts ultimately required for liquidation of obligations may fluctuate. However, the agencies will be able to utilize the savings resulting from excess obligations to offset amounts underobligated. This feature, together with the authorization in section 3 of the bill, to use currently available appropriations when necessary to meet obligations against prior years appropriations, should afford sufficient latitude to the agencies to effect payments to creditors without undue delay.

An additional benefit will be afforded by the bill. At present, liquidations of outstanding obligations against lapsed appropriations are budgeted and recorded as expenditures of the Treasury Department rather than of the agencies who received the goods and services. This procedure overstates the expenditures of the Treasury and understates the expenditures of the agencies which incurred the obligations by several hundred millions of dollars each year. Under S. 3362 such expenditures will be recorded and reported as expenditures of the individual agencies who received the goods or services.

It is understood that the Bureau of the Budget has suggested amendments to S. 3362. These amendments are for the most part technical. They have been discussed with us and we concur with the Bureau in recommending their favorable consideration.

We fully endorse the provisions of S. 3362, together with the amendments offered by the Bureau of the Budget and urge favorable consideration of the legislation by the Congress.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows:

EXISTING LAW

(Title 31, sec. 712b, U. S. C.)

Unless a longer period of availability for expenditure is specifically provided in an appropriation or other law, on July 1 in each year the unexpended balances of all appropriations which shall have remained upon the books of the Government for two fiscal years following the fiscal year or years for which appropriated shall lapse and the Secretary of the Treasury shall cause such balances to be transferred to a consolidated appropriation account, to be known as "Payment of certified claims," and such funds shall remain available until expended

PENDING BILL

That, (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the

EXISTING LAW

for the payment of claims, within the limits of and chargeable to the respective balances of any lapsed appropriations, which may be certified by the Comptroller General of the United States to be lawfully due: *Provided*, That this section shall not apply to permanent specific appropriations or appropriations for rivers and harbors, lighthouses, or public buildings (which shall continue available until otherwise ordered by the Congress) or to appropriations for the Post Office Department or the postal service: *Provided further*, That on July 1 of each year, all funds in the appropriation account "Payment of certified claims," certified by the Comptroller General of the United States as not required for the payment of claims thereunder, shall be carried to the surplus fund of the Treasury.

PENDING BILL

appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this Act: *Provided further*, That the head of the agency concerned shall make a report with respect to each such restoration to the chairman of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General of the United States and to the Director of the Bureau of the Budget.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expired, in the case of an appropriation available both for obligation and disbursement, on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appro-

EXISTING LAW

(Title 31, sec. 690, U. S. C.)

Any collection which otherwise would be for depositing to the credit of an appropriation where such appropriation has lapsed and the balance reverted to the surplus fund shall be deposited for covering into the general fund of the Treasury as miscellaneous receipts.

PENDING BILL

priation less the amount collectible as repayments to the appropriation as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals made pursuant to subsections (a) and (b) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller

EXISTING LAW

PENDING BILL

General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess may be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this Act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations

EXISTING LAW

PENDING BILL

merged with the appropriation account established pursuant to this Act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this Act.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

EXISTING LAW

(Title 31, sec. 715, U. S. C.)

All balances of appropriations which shall have remained on the books of the Treasury, without being drawn against in the settlement of accounts, for two years from the date of the last appropriation made by law, shall be reported by the Secretary of the Treasury to the General Accounting Office, the proper officer of which shall examine the books of such office, and certify to the Secretary whether such balances will be required in the settlement of any accounts pending in such office; and if it appears that such balances will not be required for this purpose, then the Secretary may include such balances in his surplus-fund warrant, whether the head of the proper department shall have certified that it may be carried into the general Treasury or not. But no appropriation for the payment of the interest or principal of the public debt, or to which a longer duration is given by law, shall be thus treated.

(Title 31, sec. 713a, U. S. C.)

Whenever it may be necessary in the settlement of the accounts of disbursing officers of the Government for expenditures already made in pursuance of law, to use appropriations carried to the surplus fund under section 713 of this title the Secretary of the Treasury is authorized to make the necessary entries on the books of the Department to effect such settlements: *Provided*, That such entries shall not involve the expenditure of any moneys from the Treasury.

PENDING BILL

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled; or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed.

(a) The proviso under the heading "Payment of certified claims" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

EXISTING LAW

(Title 31, sec. 712c, U. S. C.)

For payment of claims (not to exceed \$500 in any case) which may be certified by the Comptroller General of the United States to be within the limits of, and chargeable against the balances of the respective appropriations which, after remaining unexpended, have been carried to the surplus fund, there is appropriated for the Treasury Department, out of any money in the Treasury not otherwise appropriated, such amounts as hereafter may be necessary.

PENDING BILL

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of certified claims" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia or to the appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

SEC. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

Calendar No. 2287

84TH CONGRESS
2D SESSION

S. 3362

[Report No. 2266]

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, MARCH 2), 1956

Mr. KENNEDY (for himself, Mr. HUMPHREY, Mr. THURMOND, and Mr. COTTON) introduced the following bill; which was read twice and referred to the Committee on Government Operations

JUNE 19, 1956

Reported by Mr. KENNEDY, with amendments

[Omit the part struck through and insert the part printed in italic]

A BILL

To simplify accounting, facilitate the payment of obligations,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That, ~~except as otherwise provided by law,~~ (a) the account
4 ~~of~~ *for* each appropriation available for obligation for a definite
5 period of time shall, upon the expiration of such period,
6 be closed as follows:

7 (1) The obligated balance shall be transferred to an
8 appropriation account of the ~~activity~~ *agency or subdivision*
9 *thereof* responsible for the liquidation of the obligations, in
10 which account shall be merged the amounts so transferred

1 from all appropriation accounts for the same general pur-
2 poses; and

3 (2) The remaining balance shall be withdrawn and,
4 if the appropriation was derived in whole or in part from
5 the general fund, shall revert to such fund, but if the appro-
6 priation was derived solely from a special or trust fund, shall
7 revert, unless otherwise provided by law, to the fund from
8 which derived: *Provided, That when it is determined neces-*
9 *sary by the head of the agency concerned that a portion of*
10 *the remaining balance withdrawn is required to liquidate*
11 *obligations and reflect adjustments, such portion of the remain-*
12 *ing balance may be restored to the appropriate account estab-*
13 *lished pursuant to this Act: Provided further, That the*
14 *head of the agency concerned shall make a report with respect*
15 *to each such restoration to the Chairmen of the Committees on*
16 *Appropriations of the Senate and the House of Representa-*
17 *tives, to the Comptroller General of the United States, and*
18 *to the Director of the Bureau of the Budget.*

19 (b) The transfers and withdrawals required by sub-
20 section (a) of this section shall be made—

21 (1) not later than September 30 of the fiscal year
22 immediately following the fiscal year in which the period
23 of availability for obligation expires, in the case of an
24 appropriation available both for obligation and dis-
25bursement, on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account *as of the close of the fiscal year* shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriations ~~as of the close of the fiscal year~~ as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals ~~required~~ *made* pursuant to ~~subsection (a)~~ *subsections (a) and (b)* of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation,

1 except that such transfers of appropriations described in
2 subsection (b) (2) of this section shall be accounted for
3 and reported as of the fiscal year in which this Act is
4 approved.

5 SEC. 2. Each appropriation account established pur-
6 suant to this Act shall be accounted for as one fund and shall
7 be available without fiscal year limitation for payment of
8 obligations chargeable against any of the appropriations
9 from which such account was derived. Subject to regula-
10 tions to be prescribed by the Comptroller General of the
11 United States, payment of such obligations may be made
12 without prior action by the General Accounting Office, but
13 nothing contained in this Act shall be construed to relieve
14 the Comptroller General of the United States of his duty
15 to render decisions upon requests made pursuant to law or
16 to abridge the existing authority of the General Accounting
17 Office to settle and adjust claims, demands, and accounts.

18 SEC. 3. (a) Appropriation accounts established pursuant
19 to this Act shall be reviewed periodically but at least once
20 each fiscal year, by each activity responsible for the liquida-
21 tion of the obligations chargeable to such accounts agency
22 concerned. If the undisbursed balance in any account ex-
23 ceeds the obligated balance pertaining thereto, the amount
24 of the excess shall be withdrawn in the manner provided by
25 section 1 (a) (2) of this Act; but if the obligated balance

1 exceeds the undisbursed balance, the amount of the excess
2 ~~shall~~ *may* be transferred to such account from the appropria-
3 tion currently available for the same general purposes. A
4 review shall be made as of the close of each fiscal year and
5 the transfers or withdrawals required by this section accom-
6 plished not later than September 30 of the following fiscal
7 year, but the transactions shall be accounted for and reported
8 as of the close of the fiscal year to which such review per-
9 tains. A review made as of any other date for which trans-
10 fers or withdrawals are accomplished after September 30 in
11 any fiscal year shall be accounted for and reported as transac-
12 tions of the fiscal year in which accomplished.

13 (b) Whenever a payment chargeable to an appropria-
14 tion account established pursuant to this Act would exceed
15 the undisbursed balance of such account, the amount of the
16 deficiency may be transferred to such account from the
17 appropriation currently available for the same general pur-
18 poses. Where such deficiency is caused by the failure to
19 collect repayments to appropriations merged with the appro-
20 priation account established pursuant to this Act, the amount
21 of the deficiency may be returned to such current appro-
22 priation if the repayments are subsequently collected during
23 the same fiscal year.

24 (c) In connection with his audit responsibilities,

1 the Comptroller General of the United States shall report
2 to the head of the agency concerned, to the Secretary of the
3 Treasury, and to the Director of the Bureau of the Budget,
4 respecting operations under this Act, including an appraisal
5 of the unliquidated obligations under the appropriation ac-
6 counts established by this Act. Within thirty days after
7 receipt of such report, the agency concerned shall accomplish
8 any actions required by subsection (a) of this section which
9 such report shows to be necessary.

10 SEC. 4. During the fiscal year following the fiscal year
11 in which this Act becomes effective, and under rules and
12 regulations to be prescribed by the Comptroller General of
13 the United States, the undisbursed balance of the appro-
14 priation account for payment of certified claims established
15 pursuant to section 2 of the Act of July 6, 1949 (63 Stat.
16 407; 31 U. S. C. 712b), shall be closed in the manner pro-
17 vided in section 1 (a) of this Act.

18 SEC. 5. The obligated balances of appropriations made
19 available for obligation for definite periods of time under
20 discontinued appropriation heads may be merged in the
21 appropriation accounts provided for by section 1 hereof, or
22 in one or more other accounts to be established pursuant
23 to this Act for discontinued appropriations of the ~~activity~~
24 *agency or subdivision thereof* currently responsible for the
25 liquidation of the obligations.

1 SEC. 6. The unobligated balances of appropriations
2 which are not limited to a definite period of time shall be
3 withdrawn in the manner provided in section 1 (a) (2) of
4 this Act whenever the head of the agency concerned shall
5 determine that the purpose for which the appropriation was
6 made has been ~~fulfilled or will not be undertaken or con-~~
7 ~~tinued~~; *fulfilled*; or, in any event, whenever disbursements
8 have not been made against the appropriation for two full
9 consecutive fiscal years: *Provided*, That amounts of appro-
10 priations not limited to a definite period of time which are
11 withdrawn pursuant to this section or were heretofore with-
12 drawn from the appropriation account by administrative
13 action may be restored to the applicable appropriation ac-
14 count for the payment of obligations and for the settlement
15 of accounts.

16 SEC. 7. The following provisions of law are hereby
17 repealed.

18 (a) The proviso under the heading "Payment of certi-
19 fied claims" in the Act of April 25, 1945 (59 Stat. 90; 31
20 U. S. C. 690) ;

21 (b) Section 2 of the Act of July 6, 1949 (63 Stat.
22 407; 31 U. S. C. 712b), but the repeal of this section shall
23 not be effective until June 30, 1957;

24 (c) The paragraph under the heading "Payment of

1 certified claims" in the Act of June 30, 1949 (63 Stat. 358;
2 31 U. S. C. 712c) ;

3 (d) Section 5 of the Act of March 3, 1875 (18 Stat.
4 418; 31 U. S. C. 713a) ; and

5 (e) Section 3691 of the Revised Statutes, as amended
6 (31 U. S. C. 715).

7 (f) *Any provisions (except those contained in appro-*
8 *priation Acts for the fiscal years 1956 and 1957) permitting*
9 *an appropriation to remain available for expenditure for any*
10 *period beyond that for which it is available for obligation,*
11 *but this subsection shall not be effective until June 30, 1957.*

12 SEC. 8. The provisions of this Act shall not apply to the
13 appropriations for the District of Columbia *or to the appro-*
14 *priations disbursed by the Secretary of the Senate or the*
15 *Clerk of the House of Representatives.*

16 SEC. 9. *The inclusion in appropriation Acts of pro-*
17 *visions excepting any appropriation or appropriations from*
18 *the operation of the provisions of this Act and fixing the*
19 *period for which such appropriation or appropriations shall*
20 *remain available for expenditure is hereby authorized.*

84TH CONGRESS
2D SESSION

S. 3362

[Report No. 2266]

A BILL

To simplify accounting, facilitate the payment of obligations, and for other purposes.

By Mr. KENNEDY, Mr. HUMPHREY, Mr.
THURMOND, and Mr. COTTON

MARCH 5 (legislative day, MARCH 2), 1956
Read twice and referred to the Committee on
Government Operations

JUNE 19, 1956

Reported with amendments

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 21, 1956
For actions of June 20, 1956
84th-2nd, No. 102

CONTENTS

Accounting.....1	Food.....23	Personnel.....14,26
Appropriations.....12	Foreign affairs.....6,13	Pest control.....30
Automation.....27	Foreign aid.....9,21,32	Property.....10,25
Budgeting.....1	Forestry.....17	Public debt.....16
CCC.....8	Inspection services.....28	REA.....4,20
Civil defense.....18	Lands.....31	Reclamation.....7
Depressed areas.....15,24	Loans, farm.....11	Roads.....2,19
Electrification.....5	Milk.....3	Supergrades.....14
Fairs.....13	Minerals.....31	Veterans' benefits.....14,22
Farm credit.....4	Mining.....17	Watersheds.....29
Fees and charges.....28	Nominations.....4	

HIGHLIGHTS: House passed farm loan bill. Senate passed bill to improve government budgeting and accounting methods and procedures. Both Houses agreed to conference report on independent offices appropriation bill. Ready for President. Senate committee reported nomination of Hamil to be REA Administrator. Senate committee ordered reported bills to increase CCC borrowing authority, and increase Public Law 480 authorizations.

SENATE

1. BUDGETING; ACCOUNTING. Passed without amendment S. 3897, to improve governmental budgeting and accounting methods and procedures. p. 9671
This bill includes the following provisions:
 - (1) that proposed appropriations shall, to the maximum extent deemed desirable and practicable by the President, be determined on an annual accrued expenditure basis;
 - (2) that requests for appropriations shall be developed, in such manner and at such times as may be determined by the President, from cost-based budgets;
 - (3) that, for purposes of administration and operation, such cost-based budgets shall be used by all departments and their subordinate units;
 - (4) that, as soon as practicable, in accordance with standards prescribed by the Comptroller General, the accounts of each agency shall be maintained on an accrual basis to show resources, liabilities, and costs of operations;
 - (5) that, at the end of each fiscal year, the excess over accrued expenditures of any appropriation or fund made on an annual accrued expenditure basis shall lapse, unless otherwise provided by law, and that the remaining balances shall be merged with any appropriation or fund made for the same general purpose for the ensuing fiscal year.

- (6) that, insofar as is possible,
 - (a) consistency in accounting and budgeting classifications,
 - (b) synchronization between accounting and budget classifications and organizational structure, and
 - (c) support of budget justifications by information on performance and program costs by organizational units.
- (7) that, accounting systems maintained on an accrual basis shall include adequate monetary property accounting records as an integral part of the system.
- (8) that, each agency shall work toward the objective of financing each operating unit, at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.

Passed with amendments H. R. 9593, to simplify accounting and to facilitate the payment of obligations, after substituting the language of S. 3362, a similar bill. S. 3362 was indefinitely postponed. Sen. Kennedy inserted an explanation of the difference between the two bills. p. 9596

2. ROADS. Sen. Johnson stated that the conference report on the road bill may be submitted today. p. 9612
3. MILK. Agreed to the House amendments to S. 1614, to fix a reasonable definition and standard of identity of certain dry milk solids. This bill will now be sent to the President. p. 9612
4. NOMINATIONS. The Agriculture and Forestry Committee reported the nominations of David A. Hamil to be REA Administrator, and Glen A. Boger to be a member of the Farm Credit Board. p. 9611
5. ELECTRIFICATION. Sen. Goldwater compared public power electric rates with those of private power companies. p. 9569
Sen. Lehman inserted newspaper articles reviewing the history of the preference clause in Federal power legislation. p. 9567
6. FOREIGN AFFAIRS. Received from the President the report of the National Advisory Council on international monetary and financial problems. p. 9566
The Foreign Relations Committee reported without amendment S. Res. 285, providing for studies of foreign assistance by the U. S. (S. Rept. 2278). p. 9566
7. RECLAMATION. Passed without amendment H. R. 101, to provide clarifications in contract repayments in irrigation and reclamation projects. This bill will now be sent to the President. pp. 9572, 9573
Agreed to the House amendments to S. 1622, to authorize the Secretary of the Interior to make payment for certain improvements located on public lands in the Rapid Valley unit, S. Dak. of the Ho. River Basin project. This bill will now be sent to the President. p. 9599
8. CCC. The Agriculture and Forestry Committee ordered reported with amendment S. 3820, to increase the borrowing authority of the CCC. The "Daily Digest" states that the committee amendment "would increase borrowing power from \$14 billion to \$14.5 billion". p. D652
9. FOREIGN AID. The Agriculture and Forestry Committee ordered reported with amendment S. 3903, to increase the amount authorized to be appropriated for purposes of title I of Public Law 480 to \$3 billion. The "Daily Digest" states that the committee amendment would "make its provisions conform to those of

is extremely helpful, as I believe are also the observations of the able Senator from Ohio and the able Senator from Washington [Mr. MAGNUSON]. They are all very helpful. With those statements in the RECORD, I do not believe I will have any objection to the language which is proposed by way of amendment to the bill.

The Senator from Washington a moment ago suggested there was a House bill pending and that the bill pending before the Senate would go to conference with the House. Is that correct? Does the Senator know whether the language of the House bill is identical with the language of the Senate bill?

Mr. MAGNUSON. No, I do not. I have the House bill here, I may say to the Senator from New Mexico.

Mr. ANDERSON. I ask that question because if the language is not identical, and if the two bills will be in conference, there is a possibility of being absolutely sure about the final language.

Mr. MAGNUSON. The language in the House bill is not exactly the same, but it is very specific that the ship is to be a merchant type of ship.

Mr. HICKENLOOPER. Does the Senator from New Mexico propose that we substitute in the House bill the language contained in the Senate bill as perfected?

Mr. ANDERSON. Yes; I do. In that way, there would be a conference on the bill.

Mr. HICKENLOOPER. In other words, we would substitute the language of the Senate bill for that of the House bill.

Mr. ANDERSON. Yes. In that way the bill would go to conference.

Mr. HICKENLOOPER. Yes. I believe the difficulties could be ironed out in that way.

Mr. ANDERSON. Otherwise, if the two bills were identical, there would be nothing for a committee of conference to consider.

Mr. MAGNUSON. They are not identical.

Mr. ANDERSON. When the bill went to conference, there could be a discussion of whether the *Nautilus* type of reaction should be used, for example—and that type of reactor obviously does not contribute to the art at all—or whether it would be possible by substitute language to provide that another type of reactor should be used.

Mr. MAGNUSON. So far as I am concerned, I would be willing that that be done.

Mr. ANDERSON. I am merely trying to make legislative history in the event the conferees desired to deal with this question. In other words, does not the Senator believe that the conferees would be free to deal with the matter?

Mr. MAGNUSON. They would be free to deal with it; yes.

Mr. ANDERSON. On that basis, I have no objection to the amendments which have been proposed. I am anxious, as I say, as is the Senator from Ohio, to have some sort of bill enacted. On that basis, and with the statements made by the Senator from Ohio and the Senator from Iowa, I suggest that the amendments be adopted and that the bill be quickly passed.

Mr. MAGNUSON. I merely wish to say again, in order to make the legislative history clear, that on June 6 the committee received a statement from the Chairman of the Atomic Energy Commission, in which he pointed out the Commission's position concerning the development of nuclear power for the propulsion of a merchant vessel. He makes it clear that that is what they were talking about. They, of course, would like to proceed with the other ship about which we have been speaking, but it is not provided for in this bill and is another matter.

Mr. ANDERSON. I assume that is what the committee referred to on page 4 of its report.

Mr. MAGNUSON. Yes.

Mr. ANDERSON. Mr. President, I think the amendments are satisfactory.

The PRESIDING OFFICER. Without objection, the committee amendment, as amended, is agreed to.

The bill is open to further amendment.

Mr. MAGNUSON. Mr. President, I move that the Committee on Interstate and Foreign Commerce be discharged from the further consideration of H. R. 6243, that the Senate proceed to the consideration of the House bill, that all after the enacting clause of the House be stricken and the language of the Senate bill, as amended, be substituted therefor, and that following the passage of the House bill the Senate bill be indefinitely postponed.

Mr. KNOWLAND. Mr. President, is the motion to strike out all the language of the House bill after the enacting clause, and to substitute the language of the Senate bill as amended?

Mr. MAGNUSON. That is correct.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Washington.

The motion was agreed to; and the Senate proceeded to consider the bill (H. R. 6243) authorizing the construction of nuclear-powered merchant ship to promote the peacetime application of atomic energy, and for other purposes.

Mr. MAGNUSON. Mr. President, I move that all after the enacting clause be stricken, and that the language of the Senate bill, as amended, be substituted therefor.

The motion was agreed to.

The PRESIDING OFFICER. The question is on the engrossment of the amendment and the third reading of the bill.

The amendment was ordered to be engrossed and the bill to be read a third time.

(The bill (H. R. 6243) was read the third time and passed.)

The title was amended, so as to read: "A bill to amend section 212 of the Merchant Marine Act, 1936, to authorize the construction of a nuclear-powered prototype merchant ship for operation in foreign commerce of the United States, to authorize research and experimental work with vessels, port facilities, planning, and operating and cargo handling on ships and at ports, and for other purposes."

The PRESIDING OFFICER. The Senate bill will be indefinitely postponed.

Mr. BUTLER subsequently said: Mr. President, I ask unanimous consent to have printed after the passage of House bill 6243, a statement I have prepared on the bill.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR BUTLER

As a staunch supporter of the American merchant marine, I have been interested in the possibilities of an atomic-powered merchant ship from the earliest suggestions of the feasibility of such a vessel. With Senator SALTONSTALL I cosponsored S. 2005, to build a nuclear-powered merchant ship. I also was strongly in support of the President's proposed nuclear demonstration ship which was designed to show to the peoples of other countries the interest of this country in the development of nuclear power for peaceful purposes.

However, the committee, in its wisdom, has considered the necessities of the shipping industry to be such that they have reported out the bill favoring construction first of a nuclear-powered merchant ship for use in the foreign commerce of the United States. Having been a vigorous proponent of an adequate merchant marine and realizing the need for upgrading our shipping to the greatest possible extent to meet the ever-increasing foreign competition, I must lend my heartiest support to the proposals for immediate construction of this atomic merchant ship.

During the next 10 years, the shipping interests of the Nation must replace almost 100 percent their present commercial fleet. If we can develop enough experience and know-how in the field of atomic propulsion of vessels, it is entirely possible that our merchant ship replacements may take advantage of this newest and most extraordinary form of energy and once again step out to the forefront of the shipping nations of the world.

TRANSMISSION TO UNITED NATIONS OF INFORMATION CONCERNING THE TERRITORIES OF ALASKA AND HAWAII

Mr. KNOWLAND. Mr. President, the United Nations Charter, chapter XI, article 73, provides:

Members of the United Nations which have or assume responsibilities for the administration of territories whose peoples have not yet attained a full measure of self-government recognize the principle that the interests of the inhabitants of these territories are paramount, and accept as a sacred trust the obligation to promote to the utmost, within the system of international peace and security established by the present charter, the well-being of the inhabitants of these territories, and to this end—

And then follow subsections (a), (b), (c), (d), and (e).

I ask unanimous consent that article 73 in its entirety be printed in the RECORD at this point in my remarks.

There being no objection, article 73 of the United Nations Charter was ordered to be printed in the RECORD, as follows:

CHAPTER XI

DECLARATION REGARDING NON-SELF-GOVERNING TERRITORIES

Article 73

Members of the United Nations which have or assume responsibilities for the administration of territories whose peoples have not

yet attained a full measure of self-government recognize the principle that the interests of the inhabitants of these territories are paramount, and accept as a sacred trust the obligation to promote to the utmost, within the system of international peace and security established by the present charter, the well-being of the inhabitants of these territories, and, to this end:

(a) to insure, with due respect for the culture of the peoples concerned, their political, economic, social, and educational advancement, their just treatment, and their protection against abuses;

(b) to develop self-government, to take due account of the political aspirations of the peoples, and to assist them in the progressive development of their free political institutions, according to the particular circumstances of each territory and its peoples and their varying stages of advancement;

(c) to further international peace and security;

(d) to promote constructive measures of development, to encourage research, and to cooperate with one another and, when and where appropriate, with specialized international bodies with a view to the practical achievement of the social, economic, and scientific purposes set forth in this article; and

(e) to transmit regularly to the Secretary-General for information purposes, subject to such limitation as security and constitutional considerations may require, statistical and other information of a technical nature relating to economic, social, and educational conditions in the territories for which they are respectively responsible other than those territories to which chapters XII and XIII apply.

Mr. President, I was quite surprised to learn that since the year 1946 the Government of the United States has been filing reports to the United Nations relative to the Territories of Alaska and Hawaii, and I sought some additional information from the State Department. I ask unanimous consent that there be printed in the RECORD as a part of my remarks a list of the various types of dependencies and territories for which the several nations belonging to the United Nations presently file reports. It is dated June 11, 1956.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

Australia: Papua.
Belgium: Belgian Congo.
France: French Equatorial Africa, French Somaliland, Comoro, Madagascar, French West Africa. Morocco, Tunis, last reported on in 1954.
Netherlands: Netherlands New Guinea.
New Zealand: Tokelau Islands, Cook Islands, Niue Island.
United Kingdom: Northern Rhodesia, Nyasaland, British Somaliland, Bechuanaland, Kenya, Uganda, Zanzibar, Basutoland, Swaziland, Mauritius, Seychelles, Gambia, Gold Coast, Nigeria, Sierra Leone, Cyprus, Gibraltar, Bahamas, Barbados, Bermuda, British Guiana, British Honduras, Jamaica, Leeward Islands, Trinidad and Tobago, Windward Islands, Brunei, Federation of Malaya, Hong Kong, North Borneo, Sarawak, Singapore, Fiji, Gilbert and Ellice Islands, New Hebrides (condominium with France), Pitcairn Island, Solomon Islands, Aden colony and protectorate, Falkland Islands, St. Helena.
United States: Alaska, American Samoa, Guam, Hawaii, Virgin Islands of the United States.

Mr. KNOWLAND. Mr. President, on yesterday I addressed a letter to the Sec-

retary of State, the Honorable John Foster Dulles, which reads as follows:

JUNE 19, 1956.

The Honorable JOHN FOSTER DULLES,
Secretary of State,
Department of State,
Washington, D. C.

DEAR MR. SECRETARY: Enclosed is a copy of a letter I have written to Assistant Secretary of State Francis O. Wilcox.

Frankly, I was greatly shocked to learn that the United States since 1946 has been transmitting information under article 73 (e) for the Territories of Alaska and Hawaii. I hope that steps will be taken to correct this situation as these two organized Territories have elected their own legislatures and both have adopted constitutions in anticipation of being admitted as full members of the Union as the 49th and 50th States.

With best personal regards, I remain,
Sincerely yours,

WILLIAM F. KNOWLAND.

Mr. President, the letter which I wrote Mr. Francis Wilcox, also under date of June 19, 1956, reads as follows:

JUNE 19, 1956.

Hon. FRANCIS O. WILCOX,
Assistant Secretary of State for International Organization Affairs, Department of State, Washington, D. C.

DEAR FRANCIS: Your letter of June 11 has been received, and I wish to thank you for sending me the information.

I would certainly see no objection to the United States filing a report under article 73 (e) relating to American Samoa, Guam, and the Virgin Islands.

I most strenuously do object to this Government having filed such reports for the Territories of Alaska and Hawaii, both of which are destined to become States of the American Union. Both have adopted State constitutions and are awaiting admission as the 49th and 50th States.

I am taking the liberty of forwarding a copy of this letter to Secretary Dulles.

With best personal regards, I remain,
Sincerely yours,

WILLIAM F. KNOWLAND.

Mr. President, I should like to add that, as every Member of the Senate knows, and as Members of the House know, the Territories of Alaska and Hawaii elect delegates to the Congress of the United States who sit in the House of Representatives. So, Mr. President, I hope that prompt action will be taken to get the Territories of Hawaii and Alaska out of the category into which they have apparently been placed.

Mr. BRICKER. Mr. President, will the Senator from California yield?

Mr. KNOWLAND. I yield.

Mr. BRICKER. Have there been any reports from the State Department setting forth why the Territories of Alaska and Hawaii were included in the first place? If so, on what assumption did they make such reports?

Mr. KNOWLAND. I am awaiting a full and complete report. The preliminary information I had when the matter came up in 1946 was that it had been determined that it might encourage some of the other nations to file reports if we included Hawaii and Alaska. I do not agree with that decision, needless to say.

Mr. BRICKER. I join the Senator from California in his attitude in the matter.

The PRESIDING OFFICER (Mr. NEUBERGER in the chair). The Chair would

like to inform the Senator from California that he has requested replacement in the chair so that he might comment on what the distinguished Senator from California has just said, because the cause of statehood for Alaska and Hawaii has been one of my major interests for a long time. The Chair wishes to thank the Senator from California for the additional argument he has made for their admission into the Union. The Chair has been impressed every time he has gone North with the way in which we deny Alaska self-government. The Yukon Territory of Canada has only about 10 percent of the population of Alaska, and yet that territory is allowed a voting representative in the House of Commons of Canada, while our Delegate from Alaska is still denied the right to vote.

Mr. KNOWLAND. I thank the Presiding Officer.

SIMPLIFICATION OF ACCOUNTING METHODS

Mr. KENNEDY. Mr. President, I move that the Senate proceed to the consideration of Calendar No. 2287, Senate bill 3362.

The PRESIDING OFFICER. The bill will be stated by title, for the information of the Senate.

The LEGISLATIVE CLERK. A bill (S. 3362) to simplify accounting, facilitate the payment of obligations, and for other purposes.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Massachusetts.

The motion was agreed to; and the Senate proceeded to consider the bill, which had been reported from the Committee on Government Operations with amendments.

Mr. KENNEDY. Mr. President, this bill was reported unanimously from the Subcommittee on Reorganization and by the Government Operations Committee. It would put into effect one of the recommendations of the Hoover Commission.

Under present law, unexpended balances of appropriations with limited fiscal-year availability, lapse, or cease to be available to the agencies to which they are provided at the end of two full fiscal years following the fiscal year or years for which appropriated. At that time such balances are transferred to a consolidated Treasury Department appropriation account known as "Payment of certified claims."

This bill authorizes agencies of the Government to pay undisputed bills chargeable in precisely the same manner as are bills payable from currently available appropriations. It is anticipated that enactment of the bill will result eventually in direct savings of approximately \$600,000 annually. Savings will also be effected by the agencies concerned, and there will be a far more accurate idea of the exact amount to be appropriated to the Treasury Department each year instead of, as at present, all balances being charged to the Treasury Department rather than to the agencies involved.

As I have said, the bill has been reported unanimously, and I hope it will be passed by the Senate.

The PRESIDING OFFICER. The committee amendments will be stated.

The amendments of the Committee on Government Operations were on page 1, line 3, after the word "That", to strike out "except as otherwise provided by law"; at the beginning of line 4, to strike out "of" and insert "for"; in line 8, after the word "the", to strike out "activity" and insert "agency or subdivision thereof"; on page 2, line 8, after the word "derived", to insert a colon and "Provided, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and reflect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this act: *Provided further*, That the head of the agency concerned shall make a report with respect to each such restoration to the Chairmen of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget"; on page 3, line 7, after the word "account", to insert "as of the close of the fiscal year"; in line 10, after the word "appropriations", to strike out "as of the close of the fiscal year"; in line 22, after the word "withdrawals", to strike out "required" and insert "made"; in line 23, after the word "to", to strike out "subsection (a)" and insert "subsections (a) and (b)"; on page 4, line 20, after the word "each", where it appears the second time, to strike out "activity responsible for the liquidation of the obligations chargeable to such accounts" and insert "agency concerned"; on page 5, at the beginning of line 2, to strike out "shall" and insert "may"; on page 6, line 23, after the word "the", to strike out "activity" and insert "agency or subdivision thereof"; on page 7, line 6, after the word "been", to strike out "fulfilled or will not be undertaken or continued" and insert "fulfilled"; on page 8, after line 6, to insert:

(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

In line 13, after the word "Columbia", to insert "or to the appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives"; and after line 15, to insert:

SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

So as to make the bill read:

Be it enacted etc., That (a) the account for each appropriation available for obligation for a definite period of time shall, upon the expiration of such period, be closed as follows:

(1) The obligated balance shall be transferred to an appropriation account of the

agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

(2) The remaining balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the remaining balance withdrawn is required to liquidate obligations and reflect adjustments, such portion of the remaining balance may be restored to the appropriate account established pursuant to this act: *Provided further*, That the head of the agency concerned shall make a report with respect to each such restoration to the chairmen of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget.

(b) The transfers and withdrawals required by subsection (a) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement, on or after the date of approval of this act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this act is approved, in the case of an appropriation which, on the date of approval of this act, is available only for disbursement.

(c) For the purposes of this act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriations as reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)). Collections authorized to be credited to an appropriation but not received until after the close of the fiscal year in which such appropriation expires for obligation shall, unless otherwise authorized by law, be credited to the appropriation account into which the obligated balance has been or will be transferred, pursuant to subsection (a) (1), except that collections made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The transfers and withdrawals made pursuant to subsections (a) and (b) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation, except that such transfers of appropriations described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this act is approved.

SEC. 2. Each appropriation account established pursuant to this act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General

Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this act shall be reviewed periodically but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess may be transferred to such account from the appropriation currently available for the same general purposes. A review shall be made as of the close of each fiscal year and the transfers or withdrawals required by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which transfers or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished.

(b) Whenever a payment chargeable to an appropriation account established pursuant to this act would exceed the undisbursed balance of such account, the amount of the deficiency may be transferred to such account from the appropriation currently available for the same general purposes. Where such deficiency is caused by the failure to collect repayments to appropriations merged with the appropriation account established pursuant to this act, the amount of the deficiency may be returned to such current appropriation if the repayments are subsequently collected during the same fiscal year.

(c) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this act. Within 30 days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year following the fiscal year in which this act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the undisbursed balance of the appropriation account for payment of certified claims established pursuant to section 2 of the act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be closed in the manner provided in section 1 (a) of this act.

SEC. 5. The obligated balances of appropriations made available for the obligation for definite periods of time under discontinued appropriation heads may be merged in the appropriation accounts provided for by section 1 hereof, or in 1 or more other accounts to be established pursuant to this act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this act whenever the head of the agency concerned shall determine that the purpose for which the appropriation was made has been fulfilled; or, in any event, whenever disbursements have not been made against the appropriation for 2 full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant

to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed:

(a) The proviso under the heading "Payment of certified claims" in the act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "Payment of certified claims" in the act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) Any provisions (except those contained in appropriation acts for the fiscal years 1956 and 1957) permitting an appropriation to remain available for expenditure for any period beyond that for which it is available for obligation, but this subsection shall not be effective until June 30, 1957.

SEC. 8. The provisions of this act shall not apply to the appropriations for the District of Columbia or to the appropriations disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

SEC. 9. The inclusion in appropriation acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

The amendments were agreed to.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. KENNEDY. Mr. President, I ask unanimous consent that the Committee on Government Operations be discharged from the further consideration of the bill (H. R. 9593) to simplify accounting, to facilitate the payment of obligations, and for other purposes.

The PRESIDING OFFICER. Without objection the Committee on Government Operations is discharged from the further consideration of the bill referred to by the Senator from Massachusetts.

Mr. KENNEDY. Mr. President, I now move that the Senate proceed to the consideration of House bill 9593.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Massachusetts.

The motion was agreed to; and the Senate proceeded to consider the bill (H. R. 9593) to simplify accounting, to facilitate the payment of obligations, and for other purposes.

Mr. KENNEDY. Mr. President, I move that all after the enacting clause of the House bill be stricken, and that the Senate bill, as amended, be substituted for the language of the House bill, and that following the passage of the House bill the Senate bill be indefinitely postponed.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Massachusetts.

The motion was agreed to.

The PRESIDING OFFICER. The question is on the engrossment of the amendment and the third reading of the bill.

The amendment was ordered to be engrossed and the bill to be read a third time.

The bill (H. R. 9593) was read the third time and passed.

The PRESIDING OFFICER. Senate bill 3362 is indefinitely postponed.

Mr. KENNEDY subsequently said: Mr. President, I ask unanimous consent that there may be printed in the RECORD, following the passage of House bill 9593, a brief explanation of the differences between that bill and Senate bill 3362.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

COMPARISON OF H. R. 9593, AS APPROVED BY THE HOUSE, WITH S. 3362

Section 1 of S. 3362 provides for the transfer and merger in no-year accounts of all obligated balances of appropriations which are made for a definite period of time (1 year for obligation and 3 years for liquidation of obligations) immediately after the close of the first year.

H. R. 9593 postpones the transfer of the obligation balances until the end of the second year after expiration of the obligation period, i. e., at the end of the third year or expiration of the appropriation for expenditure purposes.

Section 1 (a) (2) and (3) of S. 3362 provides alternate authority to restore amounts withdrawn as unobligated or to effect transfers from current appropriations for supplying funds to balance the liquidated accounts, effect adjustments, and to pay outstanding obligations.

H. R. 9593 provides that funds necessary for these purposes will be limited to, and supplied from, amounts withdrawn as unobligated. Balances restored to liquidated obligations and to effect adjustments are required to be reported to the Bureau of the Budget prior to restoration.

The Senate bill is silent as to when the report must be made but requires report to the Appropriations Committees, Bureau of the Budget, and to the Comptroller General of the United States.

Both bills eliminate the requirement that all bills chargeable to lapsed appropriations must be submitted to the General Accounting Office before payment.

Both bills permit the agencies to pay prior year obligations in the same manner as current bills.

Both bills contemplate that expenditures on account of prior year obligations will be charged against the agency actually incurring the obligation rather than charging the Treasury Department as is done at the present time.

DISPOSAL OF SURPLUS PROPERTY

Mr. KENNEDY. Mr. President, I move that the Senate proceed to the consideration of Order No. 2288, H. R. 7227.

The PRESIDING OFFICER. The bill will be stated by title, for the information of the Senate.

The LEGISLATIVE CLERK. A bill (H. R. 7227) to amend further the Federal Property and Administrative Services Act of 1949, as amended, to authorize the disposal of surplus property for civil defense purposes, to provide that certain Federal surplus property be disposed of to State and local civil defense organizations which are established by or pursuant to State law, and for other purposes.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Massachusetts.

The motion was agreed to; and the Senate proceeded to consider the bill, which had been reported from the Committee on Government Operations with an amendment, to strike out all after the enacting clause and insert:

That subsection 203 (j) of the Federal Property and Administrative Services Act of 1949, as amended (40 U. S. C. 484 (j)), is amended to read as follows:

"(j) (1) Under such regulations as he may prescribe, the Administrator is authorized in his discretion to donate without cost (except for costs of care and handling) for use in any State for purposes of education, public health, or civil defense, or for research for any such purpose, any equipment, materials, books or other supplies (including those capitalized in a working capital or similar fund) under the control of any executive agency which shall have been determined to be surplus property and which shall have been determined under paragraph (2), (3), or (4) of this subsection to be usable and necessary for any such purpose. In determining whether property is to be donated under this subsection, no distinction shall be made between property capitalized in a working capital fund established under section 405 of the National Security Act of 1947, as amended, or any similar fund, and any other property. No such property shall be transferred for use within any State except to the State agency designated under State law for the purpose of distributing in conformity with the provisions of this subsection, all property allocated under this subsection for use within such State.

"(2) In the case of surplus property under the control of the Department of Defense, the Secretary of Defense shall determine whether such property is usable and necessary for educational activities which are of special interest to the armed services, such as maritime academies or military, naval, Air Force, or Coast Guard preparatory schools. If such Secretary shall determine that such property is usable and necessary for such purposes, he shall allocate it for transfer by the Administrator to the appropriate State agency for distribution to such educational activities. If he shall determine that such property is not usable and necessary for such purposes, it may be disposed of in accordance with paragraph (3) or paragraph (4) of this subsection.

"(3) Determination whether such surplus property (except surplus property allocated in conformity with par. (2) of this subsection) is usable and necessary for purposes of education or public health, or for research for any such purpose, in any State shall be made by the Secretary of Health, Education, and Welfare, who shall allocate such property on the basis of needs and utilization for transfer by the Administrator to such State agency for distribution to (A) tax-supported medical institutions, hospitals, clinics, health centers, school systems, schools, colleges, and universities, and (B) other nonprofit medical institutions, hospitals, clinics, health centers, schools, colleges, and universities which are exempt from taxation under section 501 (c) (3) of the Internal Revenue Code of 1954. No such property shall be transferred to any State agency until the Secretary of Health, Education, and Welfare has received from such State agency, a certification that such property is usable and needed for educational or public-health purposes in the State, and until the Secretary has determined that such State agency has conformed to minimum standards of operation prescribed by the Secretary for the disposal of surplus property.

"(4) Determination whether such surplus property (except surplus property allocated in conformity with paragraph (2) of this subsection) is usable and necessary for

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued
For actions of

July 2, 1956
June 29, 1956
84th-2nd, o. 109

CONTENTS

Accounting.....6	Food and drug.....18	Oranges.....19
Adjournment.....14,22	Foreign aid.....15,25	Personnel.....10,28
Appropriations.....1	Forestry.....33	Postal rates.....13
Atomic energy...9,20,23,32	Housing.....7	Public debt.....21
CCC.....13	Information.....30	Reclamation.....4,24
Depressed areas.....5	Lands, public.....17	Roads.....33
Disaster relief.....29	Legislative program....13	School construction...8,13
Education.....8,13	Livestock.....34	Security.....16
Electrification....4,20,24	Marketing.....19	Surplus commodities....2
Family farms.....26	Meat inspection.....18	Taxation.....34
Farm program.....27	Military construction...2	Textiles.....11
Fisheries.....13	Milk imports.....3	Tobacco.....12
Flag.....31	Nomination.....36	Trade, foreign.....35
Flood control.....13		

HIGHLIGHTS: Senate passed mutual security bill. Both Houses agreed to conference report on Defense Department appropriation bill. Ready for President. House committee reported bill to authorize construction of Hells Canyon Dam. House committee reported area assistance bill. House conferees appointed on bill to improve Government accounting and obligation procedures. Rules Committee ordered housing bill tabled. Jt. Committee on Atomic Energy ordered reported bills to accelerate civilian atomic power program. Sen. Humphrey criticized handling of security cases by this Department.

HOUSE

1. APPROPRIATIONS. Both Houses agreed to the conference report on H. R. 10986, the Defense Department appropriation bill for 1957. pp. 10230, 10315. This bill is now ready for the President.
2. SURPLUS COMMODITIES. Conferees were appointed on H. R. 9893, to authorize certain military construction. The bill authorizes the Secretary of Defense to use for family housing construction in foreign countries, foreign currencies not to exceed \$250 million acquired through provisions of the Agricultural Trade Development and Assistance Act or other commodity transactions of CCC. Senate conferees were appointed on June 28. p. 10229
3. MILK IMPORTS. The Agriculture Committee reported with amendment H. R. 609, to extend the Federal Import Milk Act to Alaska (H. Rept. 2536). p. 10300
4. RECLAMATION; ELECTRIFICATION. The Interior and Insular Affairs Committee reported with amendment H. R. 4719, to authorize the construction, operation, and maintenance of the Hells Canyon Dam on the Snake River between Idaho and Oregon (H. Rept. 2542). p. 10300

5. AREA ASSISTANCE. The Banking and Currency Committee reported with amendment H. R. 11811, to alleviate conditions of excessive unemployment and under-employment in depressed industrial and rural areas (H. Rept. 2543). p. 10300
6. ACCOUNTING. Conferees were appointed on H. R. 9593, to simplify Federal accounting practices and facilitate the payment of obligations. p. 10235 (Senate conferees have not been appointed.)
7. HOUSING. The Rules Committee ordered tabled H. R. 11742, the housing bill. p. D714
8. EDUCATION. Continued debate on H. R. 7535, to authorize Federal Assistance to the States and local communities financing an expanded program of school construction so as to eliminate the national shortage of classrooms. pp. 10240, 10275, 10286
9. ATOMIC ENERGY. The Joint Committee on Atomic Energy ordered reported S. 4146 and H. R. 12061, to accelerate the civilian atomic power program in the U. S. p. D715
10. PERSONNEL. Both Houses received from the Presidential Adviser on Personnel Management a proposed bill "to consolidate and revise certain provisions of law relating to additional compensation of civilian employees of the Federal Government stationed in foreign areas and to facilitate recruitment, reduce turnover, and compensate for extra costs and hardships due to overseas assignments"; to the Post Office and Civil Service Committees. pp. 10299, 10303
Received from the Health, Education, and Welfare Department a proposed bill "to encourage the extension and improvement of voluntary health prepayment plans or policies"; to the Interstate and Foreign Commerce Committee. p. 10299
11. TEXTILES. Rep. Alexander criticized the present import allowances on certain clothing and textiles, and urged that trade limitations be imposed on Japanese textiles imports. p. 10292
12. TOBACCO. Rep. Cramer urged that certain tariff adjustments be made on behalf of the Spanish All-Havana Cigar Industry of Tampa, Fla., because of the adverse effect on this industry created by the Cuban cigar industry. p. 10283
13. LEGISLATIVE PROGRAM. Rep. McCormack announced the following legislative program for July 2-6: Mon., the Consent Calendar, the small flood control projects bill, the fisheries bill, and the rule on the postal rate increase bill; Tues., Private Calendar, the postal rate increase bill; Wed., no session; Thurs. and Fri., the school construction program bill for Federal affected areas, and the CCC borrowing authority increase bill. pp. 10229, 10274
14. ADJOURNED until Mon., July 2. pp. 10229, 10299

SENATE

15. FOREIGN AID. Passed with amendments H. R. 11356, the mutual security bill, by a vote of 54 to 25 (p. 10317). Agreed to amendments by Sen. Dirksen to authorize obligations in advance of appropriations authorized in the bill, and to authorize an additional \$5 million for information, relief, exchange of persons, education and resettlement programs (p. 10320), by Sen. Humphrey, as modified, for the greater promotion of economic development in underdeveloped

law are now paying dividends to American exporters and importers, and to the areas which they serve.

Within the past 2 years the lines which entered into contracts under the 1936 act are embarking upon a replacement of more than 180 new ships, to be built between 1955 and 1970, at an estimated total cost in excess of \$1,500,000,000.

But, Mr. Speaker, there is another side to this picture which is perhaps even more urgent now than it was 20 years ago.

Today our international trade is expanding and our world obligations are increasing, but I regret to say that our participation in the foreign commerce of the United States is less than 25 percent—lower than it was before the birth of the 1936 act.

There are many reasons for this which I will not attempt to discuss now. One thing, however, is clear, and that is that the principle is the same—the need is as great or greater—and it is our obligation to meet the challenge to keep our merchant marine on an even keel with the ever expanding growth of our foreign commerce and the growing needs of our national security.

Mr. Speaker, I wish to call to the attention of the House that Schuyler Otis Bland, of Virginia, a most distinguished Member of the House and chairman of the Merchant Marine Committee for 16 years, was the father of the Merchant Marine Act of 1936 which has proven so essential to the development and expansion of our waterborne commerce and our national defense.

I would like to insert at this point an editorial from today's New York Journal of Commerce:

MERCHANT MARINE ACT ANNIVERSARY

(By Edward P. Tastrom)

Today marks the 20th anniversary of the enactment by Congress of the Merchant Marine Act of 1936, a piece of legislation that has come to be regarded as the Magna Carta of the shipping industry.

This law is particularly noteworthy for having set for the first time a long-range formula for the development of our overseas commercial shipping. It did this by establishing the parity formula for both construction and operation, required the lines which proposed to benefit by this arrangement to build up and earmark for new construction certain reserves, and to confine their operating activities to certain specific trade routes which were designed to promote the commerce of the United States.

It recognized the need of an adequate merchant fleet, but it also made certain that its development would be along the lines which would most adequately serve the common good both in time of crisis and in development of trade.

How has the act worked? A look at some statistics shows that the lines holding subsidy contracts have virtually doubled the size of their fleets. Today this fleet consists of 294 vessels of 3.2 million tons deadweight, compared with the prewar fleet of 171 ships aggregating 1.7 million tons.

More striking is the three-fold increase in yearly carrying capacity of this fleet due to the creation of larger and faster ships. Today, estimated cargo capacity lift is placed at more than 14 million tons deadweight, compared with 4.6 million 20 years earlier.

Capital reserves of these lines also have been built up to high levels and are estimated to aggregate about \$500 million. This has permitted several of the contract lines to announce new long-range construction

plans recently ranging from \$175 million to over \$300 million.

Thus, this legislation can be said to have achieved its purpose and, according to the Committee of American Steamship Lines which represents the subsidized group, at a modest cost to the taxpayer. The committee estimates that the net operating subsidy cost from 1947 through 1954 (payments were discontinued during the war period) totaled \$68.3 million, or an average of \$8.5 million a year. This is after Federal income taxes and repayments under subsidy contracts as called for by law.

The 1936 act has been amended several times to meet changing economic and political conditions so that it continues today as the living instrument of our national maritime policy.

Looking into the future it is evident that still further changes will be in order over the years ahead if this law is to continue as a dynamic force.

New problems are constantly arising and new trends having a vital influence on business continue to come to light. Shipping, with its heavy capital investment, is a long-range planning proposition so that, while the securing of cargo is always an immediate concern, the steamship executive, like the master on the bridge of one of his ships, must always look to the horizon.

If one were to peer into the crystal ball today and try to divine what might be in store for us during the next 20 years it is possible to engage in some intriguing speculation, assuming of course, that we are spared the third world war.

Some interesting trends are developing and they all will affect shipping and our maritime policy.

There is, for example, the utilization of atomic power by the merchant marine. This is coming without question, and on a commercially practical scale. The submarine *Nautilus* can be likened to the *Clermont* which first successfully and profitably utilized steam propulsion. During the decade following that initial 1807 trip to Albany, tremendous strides were made and we have never stopped expanding in this direction as the performance of the superliner *United States*, demonstrates. Look for the same thing to happen with atomic power.

With this will come new problems in ship design, cost, and handling; the need for new types of safeguards afloat and in port; revisions in cost and capital accounting, to mention a few possibilities.

We shall continue to import more and more of our raw materials to feed the giant industrial machine that we call these United States. It may be necessary to insure this flow of products by extending the benefits of our maritime laws to specific types of bulk carriers.

We are engaged in what promises to be a great struggle with the Communist bloc for adoption by the backward countries of Africa, the Middle East, and the Orient of our basic philosophy as opposed to that of the Reds. Its origins must be in economic aid to lift living standards and prove visually that our way of emerging from the dark ages is the more preferable.

This struggle is just beginning, if we read correctly the new change in Russian attitude to one of apparent friendliness.

Actually, the new Moscow attitude is more dangerous than the old truculence because it is more insidious and may lull us into a false sense of security.

Again the steamship industry is in the position of playing a major role. Our flag penetrates every major port of the world and with it brings a segment of our national attitude and way of life. It can be utilized forcefully and effectively in this great struggle which is shaping up for the loyalty of key areas of the world.

We are fortunate in having a strong merchant fleet today. We must be ever alert

to keep it strong and to expand it with the needs of our economy and our position as the world's leading trading nation.

(Mr. BONNER asked and was given permission to revise and extend his remarks.)

Mr. MAHON. Mr. Speaker, I yield such time as he may desire to the gentleman from Illinois [Mr. DAWSON].

AN ACT TO SIMPLIFY ACCOUNTING, FACILITATE THE PAYMENT OF OBLIGATIONS, AND FOR OTHER PURPOSES

Mr. DAWSON of Illinois. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes, with a Senate amendment thereto, disagree to the Senate amendment, and agree to the conference asked by the Senate.

The SPEAKER. Is there objection to the request of the gentleman from Illinois? The Chair hears none, and appoints the following conferees: Messrs. DAWSON of Illinois, JONES of Alabama, KILGORE, BROWN of Ohio, and JONAS.

Mr. MAHON. Mr. Speaker, I yield 5 minutes to the gentleman from Mississippi [Mr. WHITTEN].

(Mr. WHITTEN asked and was given permission to revise and extend his remarks.)

Mr. WHITTEN. Mr. Speaker, only a very short time ago we did pass through the Congress an appropriation bill for the Department of National Defense which did not include this extra \$900 million. At that time and prior to that time I made a special effort to not air my differences during the hearings with other members of the committee, realizing that this is only the second year I have been back on the subcommittee. I have the highest regard for all of the members, and all of them work very hard. If you were on that committee, you know they have to. But, I think there is only one justification at all for this increase which we have gone along with with the Senate in this conference report. I expressed myself very strongly that I personally could not vote for the increase unless it was adequately covered in the report. The report was prepared. I was not given a chance to go over it. It in no way reflects what I thought was agreed on at the time I agreed to vote for this increase, and I want to point out why I felt that way and do now.

Last year, after proving numerous instances of faulty policy, we got an investigation of the National Defense Department's procurement policies and practices, and it is an eye opener. I am sure most of you have not had time to read it, but I wish you would get a copy from the Appropriations Committee. The investigation had to do with the overall procurement policies and practices. It shows that one parachute company was awarded a contract based on political pressure. Another example was excluding royalties and license fees giving extra profits totaling \$5 million to North American alone. The Ford Motor Co. made a profit of 29.6 percent before it made voluntary returns to the Government. Contracts have been permitted to run for as long as 5 years without definitive specifications. Six thousand

dollars more per engine paid to Buick than was necessary to others.

The things go on and on, and I point out some examples appearing on pages 162-163 of our committee hearings on defense appropriations released this spring:

DEFICIENCIES IN PROCUREMENT PRACTICES

Mr. WHITTEN. I would like to go further and what I am trying to get into is whether the Department of Defense is not a directive-issuing addition to or an appendage to the military services.

Based on these documents which I have listed and others, I would like to point out some things which happened in this record. I am not going into too much detail, Mr. Chairman, but on page 99 the statement (p. 57 of this hearing) is made:

"The failure of the procurement status report to contain timely entries of shipment from the manufacturer result in AMA's submitting ASI's and expedites on material that has already been shipped by the manufacturer."

Then, we turn to page 101 (p. 58 of this hearing), and find the following:

"For example, in the Army too frequently, invitations for bids are issued containing items described by manufacturers' part number only. In other bids the part being procured is specified as a part manufactured by X company, or equal."

"The invitation for bid under such circumstances is often silent with respect to the existence or availability of drawings."

That could only lead to higher price bids and would tend to leave the business to one particular company.

I would like to list a number of these because I am of the opinion that it will save a little time if I do it this way.

We turn to page 103 (p. 59 of this hearing), and find the following:

"For example, one Army technical service justified an expenditure of \$130,000 in excess of the low bid on an end item on the basis that the cost involved in establishing a parts inventory of the low bidder's parts, together with the cost of preparing spare parts and operational manuals for the same, would exceed the apparent saving of \$130,000. Obviously, this thinking, if carried to an ultimate conclusion, would make it impracticable for the Government to accept a low bid if the parts and manuals of a higher bidder are already in the repair parts supply system."

In other words, if a fellow gets this business and supplies a manual, apparently, he stays in the business, even though his bids continued to be high.

Then, turning to page 104 of the report (p. 59-60 of this hearing), there is the following:

"Unwarranted obligations of funds. The initial amount of the contract was \$80,835,000, but by September 7, 1955, the amount was increased to \$353,822,495. The staff ascertained that as of September 23, 1955, orders placed against the contract amounted to \$242,960,217, with estimated requisitions on hand of about \$3.2 million. When it was pointed out to an official of ASO that the contract had been increased to over \$100 million more than orders and requisitions on hand, he said steps were being taken to modify the contract."

That is a case of ordering \$100 million worth more than was needed, apparently.

Now, on page 105 (p. 60 of this hearing) is the following statement:

"One contractor found that it took 98 weeks, on the average, to get a modification kit required as a result of an engineering change proposal, shipped to the planes requiring the change."

It took 98 weeks to get it to the planes requiring change.

Turning to page 106 (p. 61 of this hearing):

"One contractor reported the Air Force procedure of double identification of parts"—double identification—"is unwieldy and costly."

Turning to page 109 (p. 62 of this hearing):

"Another contractor reported that he ordered, at Air Force request, a carload of steer hides as part of the bulk items list for concurrent spares on an aircraft."

And they demanded that he attach a drawing. He measured the steer hides and could not find any two alike.

"The contractor tried to write a pattern description but could find no two of the steer hides of the same dimensions. Consequently it was impossible for him to submit a drawing."

And under those conditions the matter was delayed at considerable expense.

We turn then to page 111 (p. 63 of this hearing), where it is charged that:

"At one Air Force facility (it was) disclosed that the Government representatives were exercising little control over the price the contractor was charging for spare parts."

For example, in less than a 3-year period one item increased from \$8.53 each to \$15.74.

There are other specific charges. One is with regard to the radio transmitter, where about \$11 million worth of them got lost. We still have not found them, and they are procuring still others.

Secretary WILSON. Where is that?

Mr. WHITTEN. That was page 115 (p. 65 of this hearing).

One page 116 (p. 65 of this hearing) it is indicated, with regard to aircraft propellers, 157 were procured at a cost of \$1,413,000. In the supply report 62 propellers were accounted for, leaving 95 unaccounted for.

"A special inventory was taken in March 1955 at which time 115 propellers were located. However, 42 propellers worth \$378,000 were still unaccounted for."

The story which appears on pages 116 and 117 (pp. 65 and 66 of this hearing) on the Chateauroux Depot shows that the records were in a terrible state and the supplies on hand did not tally at all with the reported inventory.

Then on page 117 (p. 66 of this hearing) it is reported:

"CAMA submitted a listing of excess property to the Sacramento, Calif., Air Materiel area wherein 99 line items valued at \$632,540.38 were declared excess to CAMA requirements and disposition instructions were requested to alleviate storage problems. * * * It was stated that 45 of the 99 line items declared excess were subjects of current procurement actions."

In other words, 99 of the items were declared surplus and were set up for sale, at the same time that you were buying 45 of the 99 through other people.

Turning to page 120 (p. 67 of this hearing), the same types of inventory errors are pointed out. I would point out pages 127, 128, 129 (pp. 71 and 72 of this hearing), the relationship with Western Electric (p. 73 of this hearing), page 141 (pp. 77 and 78 of this hearing) on deficient record. Page 144 (p. 79 of this hearing) where \$70,000 payment for expedition was jumped to \$1,341,103.98. I would point out Convair, General Motors, and page 158 (p. 87 of this hearing), where additional costs to the Government piled up for 2 years while the failure of the contractor was being considered.

If these are typical—and there is every reason to believe they are—the Government is spending billions needlessly to someone's profit.

There are illustrations in this investigation where mistakenly we were supposed to pay \$2,100 per unit and the company inadvertently submitted a bill at the rate of \$2,700 per unit and the Government paid the \$2,700,

and then everybody was embarrassed to find out they had paid all that extra money.

I had extreme difficulty in getting this investigators' report printed in the hearings of this committee. I finally managed to get it done. Not only that, but I had another problem in getting Secretary Wilson to come before the committee so that we could question him in regard to it. And we did. He came before us, and he made this significant statement.

He said:

I read this record—

Referring to the investigation of the military department, and I refer to Secretary Wilson after we managed to get him before the committee. He said:

I assure you that this looks like a very bad record. I read the record over all last Sunday and spent all day reading the material. I came into my office Monday morning and I said "Well, I am mad, and sad." I did not like that kind of a record. I was sad to have such a poor relative performance with your good committee, and that is about all I can say about it.

Mr. FORD. Mr. Speaker, will the gentleman yield?

Mr. WHITTEN. I yield to the gentleman from Michigan.

Mr. FORD. I was not cognizant of any reluctance on the part of Mr. Wilson to come before the committee.

Mr. WHITTEN. May I agree with the gentleman, that I saw no reluctance on his part.

Under our procedure in the Congress, concerning which I differ with many of my fine colleagues, who incidentally have served on this subcommittee much longer on this particular subcommittee longer than I, though I served on this committee during the war. Erroneously in my opinion, under existing policy when we provide for a contract, the Congress appropriates the full amount of money for the contract in advance, although it may have 4 or 5 years to run or for the money to become due. As a result, we have to give the Department of Defense the right to use funds for a different purpose from that which they justified before the committee and from that for which we thought they were going to spend it. Later we have the job of trying to keep up with how they actually spent the funds.

As a result of giving them all this money in advance—and I think this statement will be uncontradicted—the Department of Defense as of today will have—that is, on the 1st of July this year—more money on hand than it will expend next year. And yet we are giving them thirty-billion-odd dollars in addition under the policy I describe. This is under what I think is an erroneous policy of Congress, appropriating billions years in advance of its actually having to be expended.

I think if this waste as shown by the investigation were cut out, which Mr. Wilson himself said made him mad and sad and he hated to know his Department had such a record as that, and if this money that they have a right to de-obligate and use for other purposes were properly used, then I think the Congress

Senate July 11/1956

S. 3133, with amendment, to provide for the conveyance of certain real property of the U. S. to Boise, Ida. (S. Rept. 2512).

10. RESEARCH. The Banking and Currency Committee reported with amendment S. 3832, to provide for the disposal of the Government-owned synthetic rubber research laboratories at Akron, Ohio (S. Rept. 2486). p. 11090
11. FOREIGN TRADE. The Banking and Currency Committee reported with amendment S. 3868, to extend the life of the Export-Import Bank of Washington from June 30, 1958 to June 30, 1963 (S. Rept. 2487). p. 11090
12. MINERALS; MINING. The Interior and Insular Affairs Committee reported without amendment H. R. 6501, to permit the disposal of certain reserve mineral deposits under U. S. mining laws (S. Rept. 2524). p. 11091
13. ELECTRIFICATION. The Joint Committee on Atomic Energy reported with amendment S. 2643, to encourage maximum development of low-cost electric energy from all sources, including atomic energy, coal, oil, natural gas, and water (S. Rept. 2529). p. 11091
Sen Goldwater inserted several newspaper editorials commenting on the proposed construction of Hells Canyon dam. p. 11140
Sen. Lehman criticized opposition to the proposed public hydroelectric development at Niagara Falls, N. Y. p. 11159
14. RESEARCH; APPROPRIATIONS. Received from the President a supplemental appropriation estimate for the fiscal year 1957, in the amount of \$150,000, for the Commission on Increased Industrial Use of Agricultural Products (S. Doc. 136); to Appropriations Committee. p. 11086
15. POTATOES. Sen. Humphrey inserted a Potato Growers Assoc. resolution opposing futures trading in potatoes. p. 11089
16. SURPLUS FOOD. Sen. Humphrey inserted a Lutheran Church resolution favoring the distribution of surplus food to the needy. p. 11089
17. VETERANS' BENEFITS. The Labor and Public Welfare Committee reported with amendments H. R. 9260, to amend title III of the Servicemen's Readjustment Act of 1944 (S. Rept. 2489). p. 11090
18. MINING CLAIMS. The Interior and Insular Affairs Committee reported with amendment S. 3941, relating to certain mining claims which were not validated solely because of the failure of the owners to take certain action to protect their claims within the prescribed period (S. Rept. 2522). p. 11091
19. FORESTRY. Sen. Neuberger inserted a newspaper editorial favoring the establishment of a comprehensive program to promote and advance recreation in all the national forests. p. 11098
Sen. Humphrey spoke in favor of a National Wilderness Preservation System, and inserted several articles on the matter. p. 11154
Passed as reported H. R. 8817, to provide for the conveyance of certain property of the U. S. to the city of Corbin, Ky. p. 11176
20. FOREIGN AFFAIRS. By a vote of 88 to 0, agreed to a resolution of ratification on a treaty of amity, economic relations, and consular rights with Iran; and treaties of friendship, commerce, and navigation with Nicaragua and the Netherlands. p. 11116

Passed with amendment S. Res. 285, providing for a study of the foreign aid program of the U. S. p. 11159

Passed as reported S. 147, to require that international agreements, other than treaties, hereafter entered into by the U. S., be transmitted to the Senate within 60 days after the execution thereof. p. 11163

21. ACCOUNTING. Conferees were appointed on H. R. 9593, to simplify accounting and facilitate the payment of obligations (House conferees were appointed June 29). p. 11136
22. EMPLOYEE SECURITY. Sen. Humphrey inserted several newspaper articles and a summary of the report by the N. Y. Bar Assoc. on the Federal Loyalty-Security Program. p. 11147
23. HOUSING. Sen. Lehman inserted a newspaper editorial discussing the Congressional deadlock on housing legislation. p. 11158
24. PERSONNEL. The Post Office and Civil Service Committee ordered reported the following bills: p. D776
H. R. 10368, without amendment, to amend the Civil Service Act to require inclusion of certain information in executive communications to Congress proposing creation or expansion of functions;
S. 3500, without amendment, to reduce postage rates on parcels containing only food, clothing, or medicines sent abroad by mail for relief purposes;
S. 3465, without amendment, relating to effective dates of increases in compensation granted to wage board employees;
S. 3725, with amendment, to provide for increases in the annuities of annuitants under the Civil Service Retirement Act of May 29, 1930;
S. 3593, with amendment, relating to recognition of organizations of postal and Federal employees.
25. LEGISLATIVE PROGRAM. Sen. Johnson announced that the Senate would convene at 10:30 a.m. from now until the end of the session. p. 11086
26. APPROPRIATIONS. Received from the President supplemental appropriation estimate for fiscal year 1957 (S. Doc. 136). This document includes the following items for this Department: Animal Disease Laboratory Facilities, \$18,915,000, to remain available until expended, to provide for establishment of such facilities; and Acquisition of lands for Superior National Forest, Minnesota, \$500,000, to remain available until expended; to Appropriations Committee. p. 11086

ITEMS IN APPENDIX

27. LANDS. Extension of remarks by Rep. Young criticizing certain land agents acting in the disposal of public lands in Nev. p. A5444
28. GOVERNMENT SECURITY. Rep. Sheehan inserted a newspaper editorial urging support of legislation to reverse the Supreme Court's decision in the dismissal of Federal employees from nonsensitive positions. p. A5446
Rep. Multer inserted a newspaper editorial favoring a study and possible revision of the Government's loyalty-security program in view of the Supreme Court's decision on summary dismissals. p. A5464
29. FARM PROGRAM. Sen. Wiley inserted the text of his speech in Footville, Wis. urging an All-American program of justice for the farmer and other segments of the nation's economy. p. A5455

I found in testimony given before the Joint Legislative Committee To Investigate the Public Education System of New York that Theodore Geiger had been named as a member of the Communist Party in the past while associated with the College of the City of New York. * * * The witness who so testified was William Martin Canning, a former instructor in English at CCNY. I do not know whether Geiger was a Communist Party member at the time of his ECA appointment, but I know that the ECA-foreign aid enabling statute specifically precluded the employ of anyone who had been a Communist. Geiger never appealed his dismissal from CCNY nor denied, as far as I know, the weight of the Rapp-Coudert Committee testimony that he was a party member, under its discipline and paid dues to an apparatus operating with the New York County Communist Party Education Committee.

Again, Mr. President, let me say that I would not discuss Geiger except for the fact that the Geiger case illustrates Mr. Hoffman's attitude toward the Communists-in-Government problem.

I quote further from Mr. Hoguet's statement:

I took this information concerning Geiger to Mr. Hoffman and the ECA security offices and in several meetings suggested that this evidence justified an investigation of Geiger. Mr. Hoffman said that he had previously signed a loyalty certificate for Mr. Geiger and he said that he would not go behind that. Therefore, there was no action taken concerning Geiger at that time and it was not until almost a year later that I heard that Mr. Geiger was, after considerable time, investigated and fired, or dropped from ECA. I understood also that this was not done without considerable opposition from Mr. Hoffman and Mr. Bissell, his principal assistant. This confrontation by Mr. Hoffman with the evidence on Geiger by myself, by the security officers of ECA and by publication in the newspapers occurred approximately in late March 1949 and early April and from then on he requested my resignation, which I refused. For 4 weeks or so a fight developed and Bissell, Hoffman, and Bruce tried to get me to change my mind and offered me a job in Boston. Senator McCarran, the Watchdog Committee, the FBI, all became interested and began to check into Geiger and a possible penetration of the ECA. McCarran's office sent two investigators to Ohio to interview Canning. Canning later came to Washington where I saw him and where he was to obtain a summer job in the Library of Congress. A member of the FBI Washington office told me that they believed Geiger and some associates were part of the Nathan Gregory Silvermaster group—

A spy group—

which had received so much publicity in August of 1948, and were said to be working in 8 Federal agencies on the basis of allegations by Elizabeth Bentley, Louis F. Budenz, and Whittaker Chambers.

A few days later after a personal visit of Mr. Hoffman to Senator McCarran, where he learned I had seen him in connection with this matter, Mr. Hoffman threatened to fire me. On a visit to New York to see my father who was ill, my father told me he was concerned for my welfare in my fight in Washington and suggested I might better fight outside of the Government than within. On or about June 1, 1949, I resigned from ECA.

Thus, Mr. President, we here find that Hoffman not only refused to discharge a man in a top policymaking position, a man he must have known was, or at least, had been, a Communist, but, in-

stead, requested the resignation of the man who had helped expose him.

The remainder of Mr. Hoguet's statement is also of great interest, although I shall not take the time of the Senate to read all of it. I think it should be included in its entirety in the CONGRESSIONAL RECORD.

At this time, Mr. President, let me read passages of the Rapp-Coudert committee transcript that Mr. Hoguet called to Paul Hoffman's personal attention. The witness is William Martin Canning. The questioning is done by Mr. Paul Windels, counsel for the committee:

Question. When did you join the Communist Party?

Answer. January 1936.

Question. And when did you leave the party?

Answer. Approximately December—November or December 1938.

Question. Were there ever any jurisdictional disputes over the question as to where a member should belong?

Answer. Oh, yes, there were sort of jurisdictional disputes between the Columbia University unit and the unit of City College.

Question. Do you recall any incidents evidencing that dispute?

Answer. Yes; in the case of two or the teachers at the college there was a question as to whether they should belong to the Columbia or the City College unit.

Question. How did they happen to be in the Columbia unit?

Answer. They were graduate students there, getting a doctor's degree.

Question. That was at the same time that they were teaching in City College?

Answer. Right.

Question. Do you recall who those persons were?

Answer. Yes; Moses I. Finkelstein was the first.

Question. Where did he teach?

Answer. In City College, department of history.

Question. Who is the other person?

Answer. The other person was Theodore Geiger, also in the department of history.

Question. What was the dispute with respect to those persons?

Answer. The decision was to permit them to remain members of the Columbia unit, rather than transferring them.

Question. And you observed all of these persons whom you have named and whom you may name later as having been at those meetings?

Referring to Communist meetings—

Answer. I did.

Question. Were those closed meetings of the Communist unit?

Answer. They were.

From these documents, it is evident that Hoffman was personally aware that it had been testified under oath that one of his top assistants had been a member of the Communist Party and had attended secret meetings of the Communist Party. Hoffman also knew that the congressional statute under which he was operating prohibited the employment of any person who had ever been a member of the Communist Party. And what did Hoffman do when confronted with this information that one of his top assistants was a Communist? He tried—and it is all a matter of record—to get rid of the man who had brought the information to his attention.

As for Geiger—the named Communist—Hoffman refused to go behind the so-called loyalty certificate which had originally been issued by Mr. Hoffman himself. Hoffman evidently refused even to order a further investigation of Geiger. As a result, Geiger remained in a policymaking job in the ECA, handling funds from the pockets of American taxpayers, and continued to influence the administration of our foreign-aid program.

In this connection, Mr. President, I call attention to a portion of the McCarran committee hearings on the Institute of Pacific Relations, wherein Mr. Canning repeated his testimony about Geiger, and wherein we learn that the McCarran watchdog committee finally forced the resignation of Geiger.

I think it is apropos, in passing, to point out that Senator McCarran did an outstanding job for America—a tremendous job. If only he were with us today. As the Presiding Officer knows, it is not very often that I take time on the floor of the Senate to praise Members of the opposite party. However, I think that whenever the name of Pat McCarran is mentioned we should, at least in passing, mention his service to our country.

I read from the transcript of the hearings before the McCarran committee:

Mr. CANNING. There was one other who belonged to the same Columbia University unit, Theodore Geiger.

Senator FERGUSON. Was he a Communist?

Mr. CANNING. Yes; he was.

Senator FERGUSON. Any doubt about it?

Mr. CANNING. No doubt in my mind that he was.

Senator FERGUSON. Where did you know him?

Mr. CANNING. I knew him both at City College where he was a student, and later at Columbia University where he continued his graduate studies.

Senator FERGUSON. About when did he leave there?

Mr. CANNING. When did he leave Columbia? City College?

Senator FERGUSON. Or City College.

Mr. CANNING. I think he finished at City College, he received his bachelor's degree in 1935.

Senator FERGUSON. Where did he come in the Government?

Mr. CANNING. Into the Economic Cooperation Administration.

Senator FERGUSON. Do you know whether he is in Government now?

Mr. CANNING. No. I have been informed that he has resigned.

Senator FERGUSON. When?

Mr. CANNING. Not a very long time ago, several months ago.

Senator FERGUSON. Just months ago.

Mr. CANNING. Yes, sir.

Senator FERGUSON. What was his position in Government?

Mr. CANNING. He was, I believe, Deputy Administrator to the ECA, though I am not certain of his exact title.

Senator FERGUSON. That is the same man that you knew in Columbia as a Communist?

Mr. CANNING. Yes, sir.

Senator FERGUSON. Was he active in communism?

Mr. CANNING. He was.

Senator FERGUSON. As active as you and Finkelstein?

Mr. CANNING. Not quite as active as Finkelstein, but perhaps as active as I was.

Senator FERGUSON. As you were?

Mr. CANNING. Yes, sir.

Senator FERGUSON. Is there anybody else who came into Government?

Mr. CANNING. One further person—

Senator FERGUSON. By the way, did you ever hear that this man had ever left the Communist rank, either publicly or privately hear that he had left?

Mr. CANNING. No, sir; I never heard that he had resigned.

Senator FERGUSON. You never heard?

The CHAIRMAN. I want to say, Senator, that some time ago the watchdog committee of the Committee on Appropriations made a representation to ECA as to this individual—

Referring to Geiger—

and drew the attention of ECA to his past history and asked for an investigation, following which I think there was a resignation. That is my impression.

That testimony sheds some light on the speech which Paul Hoffman made about 2 months ago, in which he condemned the use of ex-Communists as sources of information. He did not want that information to come out. The Daily Worker also condemns the use of ex-Communists by Senate committees and by the FBI.

Mr. President, we have here on the written record evidence that Paul Hoffman, as ECA Administrator, played the role of guardian angel to a man whom he had good reason to believe had been, and perhaps still was, a member of the Communist Party. Moreover, Hoffman appears to have played this role even though he was forbidden by law to retain on his staff either a present or past member of the Communist Party. I submit that the Senate would be derelict in its duty if it permitted Mr. Hoffman to be appointed to another high position without satisfying itself that Mr. Hoffman has a convincing explanation for his conduct. I personally doubt that he has a satisfactory explanation. I feel that his handling of the Geiger case is entirely consistent with his attitude toward the internal Communist menace which I have documented earlier in this statement.

Mr. President, it may seem unusual for me to make a statement concerning Hoffman before his appointment has actually been sent to the Senate for confirmation. But I am advised, on the best authority, that the current plan of the administration is to make the appointment after the Senate has adjourned so as to avoid the risk of the Senate refusing to confirm Hoffman. I cannot believe that the President would be a party to an underhanded plan to derive the Senate of its right to pass on an important appointment of this kind. I sincerely hope that the report is untrue. However, I am convinced that the report is true. Otherwise I would not be making this speech today.

If the appointment should be submitted for confirmation, it is inconceivable to me that the Senate would confirm Paul Hoffman. Be that as it may, the Senate has the right to pass judgment on this matter before Mr. Hoffman takes his seat at the General Assembly session next fall.

Therefore, I call upon the administration to submit the appointment before Congress adjourns, if it is going to make the appointment, as apparently it is, because it is of the utmost importance that the matter be aired before it is too late.

SIMPLIFICATION OF ACCOUNTING AND FACILITATION OF PAYMENT OF OBLIGATIONS

The PRESIDING OFFICER laid before the Senate a message from the House of Representatives announcing its disagreement to the amendment of the Senate to the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes and requesting a conference with the Senate on the disagreeing votes of the two Houses thereon.

Mr. KENNEDY. I move that the Senate insist upon its amendment, agree to the request of the House for a conference, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. KENNEDY, Mr. WOFFORD, and Mr. COTTON conferees on the part of the Senate.

GUISEPPE AGOSTA

The PRESIDING OFFICER laid before the Senate the amendments of the House of Representatives to the bill (S. 47) for the relief of Giuseppe Agosta which were to strike out all after the enacting clause and insert:

That, for the purposes of the Immigration and Nationality Act, Giuseppe Agosta and Shakeeb Dakour shall be held and considered to have been lawfully admitted to the United States for permanent residence as of the date of the enactment of this act, upon payment of the required visa fees.

SEC. 2. For the purposes of the Immigration and Nationality Act, Gertrud Charlotte Samuelis shall be held and considered to have been lawfully admitted to the United States for permanent residence as of the date of the enactment of this act upon payment of the required visa fee and upon compliance with such conditions and controls which the Attorney General, after consultation with the Surgeon General of the United States Public Health Service, Department of Health, Education, and Welfare, may deem necessary to impose: *Provided*, That a suitable and proper bond or undertaking, approved by the Attorney General, be deposited as prescribed by section 213 of the said act.

SEC. 3. Upon the granting of permanent residence to each alien as provided for in this act, if such alien was classifiable as a quota immigrant at the time of the enactment of this act, the Secretary of State shall instruct the proper quota-control officer to reduce by one the quota for the quota area to which the alien is chargeable for the first year that such quota is available.

And to amend the title so as to read: "An act for the relief of Giuseppe Agosta, Shakeeb Dakour, and Gertrud Charlotte Samuelis."

Mr. JOHNSON of Texas. Mr. President, on June 14, 1955, the Senate passed S. 47, to grant the status of permanent residence in the United States to the beneficiary. On July 3, 1956, the House of Representatives passed S. 47, with amendments to include the beneficiaries of two similar individual Senate bills.

The amendments are acceptable, and I move that the Senate concur in the House amendments to S. 47.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Texas.

The motion was agreed to.

PAULINE H. CORBETT

The PRESIDING OFFICER laid before the Senate a message from the House of Representatives announcing its disagreement to the amendment of the Senate to the bill (H. R. 3957) for the relief of Pauline H. Corbett and requesting a conference with the Senate on the disagreeing votes of the two Houses thereon.

Mr. JOHNSON of Texas. Mr. President, on May 9, 1956, the Senate passed, with an amendment, the bill (H. R. 3957) for the relief of Pauline H. Corbett.

The House disagreed to the Senate amendment and has requested a conference.

I move that the Senate insist on its amendment, agree to the conference asked by the House, and that the Chair appoint conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. KEFAUVER, Mr. JOHNSTON of South Carolina, and Mr. LANGER conferees on the part of the Senate.

CITY OF ELKINS, W. VA.

The PRESIDING OFFICER laid before the Senate the amendment of the House of Representatives to the bill (S. 2182) for the relief of the city of Elkins, W. Va., which was to strike out all after the enacting clause and insert:

That all of the airport revenue bonds issued by the city of Elkins, W. Va., presently held by the Reconstruction Finance Corporation and amounts due thereon or in connection therewith, are hereby transferred to the Civil Aeronautics Administration, together with all the functions, rights, powers, and records of the Reconstruction Finance Corporation relating to the said bonds. All receipts and recoveries hereafter with respect to said bonds shall be covered into the Treasury as miscellaneous receipts.

SEC. 2. In the settlement of its accounts the Reconstruction Finance Corporation shall receive full credit for the said bonds and all amounts due thereon or in connection therewith.

Mr. JOHNSON of Texas. Mr. President, on July 30, 1955, S. 2182, for the relief of the city of Elkins, W. Va., passed the Senate, with an amendment. On July 2, 1956, the House of Representatives passed this bill, with an amendment.

I move that the Senate disagree to the House amendment, request a conference with the House thereon, and that the conferees on the part of the Senate be appointed by the Chair.

The motion was agreed to; and the Presiding Officer appointed Mr. DANIEL, Mr. O'MAHONEY, and Mr. DIRKSEN conferees on the part of the Senate.

MISS SHIRLEY FRY, OF ST. PETERSBURG, FLA.

Mr. HOLLAND. Mr. President, over and over again we hear in Florida, of cases where people with serious illnesses come to Florida to spend what they think will be their few remaining days or months on this earth, only to recover completely under the Florida sun. Several famous athletes who have suffered injuries which prevented their active

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 16, 1956
For actions of July 13, 1956
84th-2nd, No. 119

CONTENTS

Accounting.....2	Grain standards.....8	Price support.....44
Adjournment.....13,38	Guam.....36	Property.....25
Animal disease.....46	Humane slaughter.....26	Public Law 480.....12
Appropriations.....12,27,37,46	Labor, farm.....9	Reclamation.....7,31,37
Atomic energy.....12	Lands.....11,25,36	Research.....15,46
Budget Bureau.....46	Leases.....25	Rivers and harbors.....43
Budgeting.....2	Legal officers.....20	Roads.....30
CCC.....1	Legislative program.....12	School milk.....25
Contracts.....3	Livestock.....25,26,28	Security.....21,46
Cotton.....14,33	Loans, farm.....5	Social security.....37
Credit.....35	Marketing.....6,12,17	Surplus commodities.....41
Electrification.....7,34,39	Mining.....19,45	Transportation.....4
Executive pay.....29,37	Monopolies.....40	Trip leasing.....4
Experiment stations.....25	Mutual security.....27,37	Watersheds.....18
Export-Import Bank.....16	Personnel.....24	Weather control.....46
Foreign affairs.....32	Point of order.....12	Wheat.....8,22
Foreign aid.....27,37,42	Potatoes.....23	Wildlife.....10

HIGHLIGHTS: Senate passed following bills: Disposal of Akron synthetic rubber laboratory. Permit processors to buy cotton futures contracts. Ready for President. Broaden law on practices in marketing perishable commodities. Eliminate delay in starting watershed projects. Ready for President. Provide for Presidential appointment of Department's legal officers. Extend time for filing Government Security Commission Report. Both Houses received proposed legislation to implement International Wheat Agreement. Senate committee reported bills to: Renew lease to railroad on ARS land in Montana. Extend special school milk program to certain institutions. Senate committee ordered reported bill for humane slaughter methods. Senate committee ordered reported mutual security appropriation bill. Sen. Johnson urged additional drought assistance for livestock industry. House conferees appointed on CCC borrowing increase bill. House passed following bills: Simplify and facilitate (continued on page 6)

HOUSE

1. COMMODITY CREDIT CORPORATION. Conferees were appointed on S. 3820, to increase the borrowing authority of the CCC. Senate conferees were appointed on July 9. p. 11522
2. BUDGETING; ACCOUNTING. Passed with amendment S. 3897, to improve governmental budgeting and accounting methods and procedures. The amendment consisted of the insertion of the language of H. R. 11526, a similar bill, after having passed the House with committee amendments. H. R. 11526 was subsequently laid on the table. p. 11522

Rep McCormack requested and received permission for the Government Operations Committee to file, by Mon. midnight, a report on H. R. 11526. p. 11589

The "Daily Digest" states that the conferees agreed to file a conference report on H. R. 9593, to simplify accounting and facilitate the payment of

obligations. p. D801

3. CONTRACTS. Passed as reported H. R. 11947, to amend and extend (until Jan. 1, 1959) the provisions of the Renegotiation Act of 1951. p. 11550
4. TRANSPORTATION. Passed as reported S. 898, to amend the Interstate Commerce Act so as to authorize ICC to regulate the use by motor carriers (under leases, contracts, or other arrangements) of motor vehicles not owned by them, in the furnishing of transportation of property, but to prohibit regulation of the duration of, the terms of pay under, certain trip-leasing arrangements. p. 11572
5. FARM LOANS. Conferees were appointed on H. R. 11544, to improve and simplify the credit facilities available to farmers, and to amend the Bankhead-Jones Farm Tenant Act. Senate conferees were appointed on July 12. p. 11577
6. MARKETING. Began debate on H. R. 4054, to provide a system of mortgage insurance to municipal and other political subdivisions of the States, to be administered by USDA, for the expansion of public marketing of perishable commodities. p. 11577
7. RECLAMATION; ELECTRIFICATION. Passed with amendment S. 497, to authorize the construction, operation, and maintenance of the Washoe reclamation project, Nev. and Calif. The amendment to S. 497 consisted of inserting the language of H. R. 10643, a similar bill, after having passed the House without amendment. H. R. 10643 was subsequently laid on the table. p. 11582
8. GRAIN STANDARDS. The Subcommittee on Wheat of the Agriculture Committee ordered reported to the full committee S. 1400, to protect the integrity of grade certificates under the U. S. Grain Standards Act by providing penalties for persons who knowingly sample grain improperly and for persons who knowingly load or otherwise handle grain deceptively for inspection under the Act. p. D799
9. FARM LABOR. The Subcommittee on Transportation and Communication of the Interstate and Foreign Commerce Committee ordered reported to the full committee S. 3391, to provide for reasonable requirements regarding comfort, safety, etc., of the interstate transportation of migrant farm workers. p. D800
10. WILDLIFE. The Merchant Marine and Fisheries Committee ordered reported H. R. 8250, to require conformance with State and Territorial fish and game laws and licensing requirements on Federal lands not subject to such laws. p. D800
11. LAND TRANSFER. Agreed to the Senate amendments to H. R. 8817, to provide for the transfer of certain Forest Service land to the city of Corbin, Ky. This bill is now ready for the President. p. 11577
12. LEGISLATIVE PROGRAM. Rep. McCormack announced the following legislative program for July 16 - 20: Mon., Consent calendar and the civil-rights bill; Tues., Private calendar; Wed., Committee Calendar; and balance of the week: AEC appropriation authorization increase, Defense Department point of order bill, marketing facilities bill, and bill to amend Public Law 480, 83d Congress. p. 11589
13. ADJOURNED until Mon., July 16. pp. 11589, 11595

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

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84th-2nd, No. 120

CONTENTS

Accounting.....7	Foreign aid.....32,37,39	Postal rates.....26
Animal disease.....1	Forestry.....3,23,45	Property.....24
Appropriations.....1,20,32	Fruitfly.....20	Reclamation.....31,32
Atomic energy.....19	FS.....1,19	Records.....12
Attaches.....1	Information.....25	Research.....5
Budgeting.....7,34	Lands.....5,10,18,24	School lunch.....26,28
Buildings.....20	Legislative program.....32	Security.....6
Cranberries.....9	Loans, farm.....22	Social security.....29,32
Electrification.....30,36	Marketing.....9	Soil conservation.....4
Executive pay.....32	Military	Surplus commodities.....11
Farm credit.....8	construction.....11,44	Trade fairs.....13
Farm program.....40	Milk imports.....14	Veterans' benefits.....22
FCIC.....1	Minerals.....18	Water.....17,33
FHA.....1	Monopolies.....41	Watersheds.....21
Flood control.....16	Penalty mail.....46	Wheat.....35,42
Food and drugs.....15,19,26,43	Personnel.....1,27,38	Wildlife.....10

HIGHLIGHTS: House passed bills to: Permit USDA-State-local employee exchanges; authorize acquisition of additional lands in Cache National Forest; approve Middle Atlantic interstate forest fire compact; release certain Tongass Forest receipts from escrow; continue ACP authority; authorize transfer of certain ARS lands in Alaska; extend time for report on Government security program. House received conference report on bill to simplify accounting procedures and facilitate payment of obligations; House committee reported bill to improve budgeting and accounting methods. House agreed to Senate amendments to bill to merge intermediate credit banks and production credit associations. House received President's veto message on military construction measure. House committee reported bill to include cranberries for canning and freezing in Marketing Agreements Act. House committee reported bill to require conformance with State game laws on certain Federal lands. House committee reported USDA point-of-order bill. Sen. Ellender introduced bill to implement (continued on page 7)

HOUSE

1. APPROPRIATIONS. The Agriculture Committee reported with amendment H. R. 11682, to facilitate the control and eradication of certain animal diseases, to facilitate the carrying out of agricultural and related programs, to facilitate the agricultural attache program, and to facilitate the operations of FHA, FCIC, and FS (H. Rept. 2732). p. 11795
2. PERSONNEL. Passed as reported S. 1915, to permit the exchange of employees of this Department and employees of State political subdivisions or educational institutions for a period not to exceed 2 years in duration. p. 11720
3. FORESTRY. Passed as reported H. R. 8898, to authorize the purchase of additional lands within the Cache National Forest, Utah. p. 11721

Passed without amendment S. 3032, to approve the Middle Atlantic Interstate Forest Fire Compact. This bill is now ready for the President. p. 11726

Passed without amendment S. 2517, to provide for the release of certain Tongass National Forest timber receipts from escrow. This bill is now ready for the President. p. 11731

4. SOIL CONSERVATION. Passed without amendment S. 3120, to further extend the period of Federal administration of the ACP program from Jan. 1, 1957 to Jan. 1, 1959. This bill is ready for the President. A similar bill, H. R. 8321, was laid on the table. p. 11731
5. LAND TRANSFER. Passed without amendment S. 3344, to authorize the transfer of the Baranof Castle site (former research land) to the city of Sitka, Alaska. This bill is now ready for the President. A similar bill, H. R. 9678, was laid on the table. p. 11731
6. GOVERNMENT SECURITY. Passed without amendment S. J. Res. 182, to extend (until June 30, 1957) the time limit for the filing of a final report of the Commission on Government Security. This measure is now ready for the President. A similar measure, H. J. Res. 655, was laid on the table. p. 11733
7. ACCOUNTING. Received the conference report on H. R. 9593, to simplify accounting methods and facilitate the payment of obligations (H. Rept. 2726). p. 11786
The Government Operations Committee reported with amendment H. R. 11526, to improve governmental budgeting and accounting methods and procedures (H. Rept. 2734). p. 11795
8. FARM CREDIT. Agreed to the Senate amendments to H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations. This bill is now ready for the President. p. 11787
9. MARKETING. The Agriculture Committee reported without amendment H. R. 8384, to extend the provisions of the Agricultural Marketing Agreement Act of 1937, to cranberries for canning or freezing processing (H. Rept. 2721). p. 11795
10. WILDLIFE. The Merchant Marine and Fisheries Committee reported with amendment H. R. 8250, to require conformance with State and Territorial fish and game laws and licensing requirements on Federal lands not subject to such laws (H. Rept. 2728). p. 11795
11. MILITARY CONSTRUCTION; SURPLUS COMMODITIES. Received the President's veto message on H. R. 9893, to authorize certain construction at military installations. The bill authorizes the Secretary of Defense to use for family housing in foreign countries, foreign currencies not to exceed \$250 million acquired pursuant to the provisions of the Agricultural Trade Development and Assistance Act of 1954, or through other commodity transactions of the CCC (H. Doc. 450). p. 11788
12. RECORDS. Passed over, at the request of Rep. Cunningham, S. 2364, to further clarify GSA's jurisdiction over records management. p. 11716
13. TRADE FAIRS. Passed as reported H. J. Res. 604, to authorize the President to invite the various States and foreign countries to participate in the U. S.

SIMPLIFYING ACCOUNTING PROCEDURES AND FACILITATING PAYMENT OF GOVERNMENT OBLIGATIONS

JULY 16, 1956.—Ordered to be printed

MR. DAWSON of Illinois, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 9593]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *That (a) the account for each appropriation available for obligation for a definite period of time shall be closed as follows:*

(1) *On June 30 of the second full fiscal year following the fiscal year or years for which the appropriation is available for obligation, the obligated balance shall be transferred to an appropriation account of the agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and*

(2) *Upon the expiration of the period of availability for obligation, the unobligated balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: Provided, That when it is determined necessary by the head of the agency concerned that a portion of the unobligated balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the unobligated balance may be restored to the appropriate accounts: Provided further, That prior thereto the head of the agency concerned shall make*

such report with respect to each such restoration as the Director of the Bureau of the Budget may require, and shall submit such report to the Director, the Comptroller General, the Speaker of the House of Representatives, and the President of the Senate.

(b) The withdrawals required by subsection (a) (2) of this section shall be made—

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation, which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation; the unobligated balance shall represent the difference between the obligated balance reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)), and the total unexpended balance. Collections authorized to be credited to an appropriation but not received until after the transfer of the obligated appropriation balance as required by subsection (a) (1) of this Act, shall, unless otherwise authorized by law, be credited to the account into which the obligated balance has been transferred, except that any collection made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

(d) The withdrawals made pursuant to subsection (a) (2) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation. The withdrawals described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically, but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess, not to exceed the remaining unobligated balances of the appropriations available for the same general purposes, may be restored to such account. A review shall be made as of the close of each fiscal year and the restorations or withdrawals required or authorized by this section accomplished not later than September 30 of the following fiscal year, but

the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which restorations or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished: Provided, That prior to any restoration under this subsection the head of the agency concerned shall make such report with respect thereto as the Director of the Bureau of the Budget may require.

(b) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

SEC. 4. During the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the obligated balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be transferred to the related appropriation accounts established pursuant to this Act and the unobligated balance shall be withdrawn.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may, upon the expiration of the second full fiscal year following the fiscal year or years for which such appropriations are available for obligation, be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled; or in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: Provided, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

SEC. 7. The following provisions of law are hereby repealed:

(a) The proviso under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) Any provisions (except those contained in appropriation Acts

for the fiscal years 1956 and 1957) permitting an appropriation which is limited for obligation to a definite period of time to remain available for expenditure for more than the two succeeding full fiscal years, but this subsection shall not be effective until June 30, 1957.

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia or appropriations to be disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

SEC. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

And the Senate agree to the same.

WILLIAM L. DAWSON,

ROBT. E. JONES,

JOE M. KILGORE,

CLARENCE J. BROWN,

CHARLES R. JONAS,

Managers on the Part of the House.

JOHN KENNEDY,

THOMAS F. WOFFORD,

NORRIS COTTON,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The conference substitute is the same as the bill as it passed the House, except in two minor respects. The House report contained a provision that the head of the agency shall make a report with respect to restorations as the Director of the Budget may require. The corresponding provision of the Senate amendment required that such report be made to the chairmen of the Committees on Appropriations of the Senate and the House of Representatives and to the Comptroller General of the United States, and to the Director of the Bureau of the Budget. The conference substitute provides that such report be submitted to the Director of the Budget, the Comptroller General, the Speaker of the House of Representatives, and the President of the Senate.

The House bill postponed the transfer of the obligated balances during the fiscal year following the fiscal year in which this act becomes effective. The conference substitute provides that such transfer shall be made during the fiscal year in which the act becomes effective.

WILLIAM L. DAWSON,
ROBT. E. JONES,
JOE M. KILGORE,
CLARENCE J. BROWN,
CHARLES R. JONAS,
Managers on the Part of the House.

The first part of the paper discusses the importance of the
 study of the history of the United States. It is
 important to understand the past in order to
 understand the present. The second part of the
 paper discusses the importance of the study of
 the history of the world. It is important to
 understand the past in order to understand the
 present. The third part of the paper discusses
 the importance of the study of the history of
 the United States. It is important to understand
 the past in order to understand the present.

us think it should. But its enactment would be a sign, it would be a step forward. We should take that step. We cannot ignore the fact that one group, a group we inherited, has been deprived of full development toward American freedom. We must show that the words we honor—liberty, equality under the law, equal opportunity in all fields—are not mere catch phrases. We must show that when our own broadening comprehension recognizes a flaw in our practice, we will move to correct the flaw.

This we owe to others out of a proper respect for the opinions of mankind. We owe it even more deeply to ourselves.

Mr. CELLER. Mr. Chairman, I yield such time as he may desire to the gentleman from Pennsylvania [Mr. CHUDOFF].

(Mr. CHUDOFF asked and was given permission to revise and extend his remarks.)

Mr. CHUDOFF. Mr. Chairman, at last some kind of civil-rights legislation has come to the floor of the House. This measure sets up a commission to study the state of civil rights, creates a special division in the Justice Department to handle enforcement and increases the power of the Federal courts to deal with cases involving denial of access to the ballot box. The measure incorporates a program belatedly recommended by Attorney General Brownell. It is not much perhaps, but it is something.

It seems to me that the legislation now before us is a perfect example of what is commonly known as "Too little and too late." Too little because I would rather see before us today the type of omnibus civil-rights legislation introduced by Congressman POWELL, of New York, in January 1955, or those bills introduced by the gentleman from New York [Mr. CELLER], about the same time. To be egotistic I would have rather been speaking on the bills that I personally introduced for civil rights in January 1955. These bills are H. R. 3562, H. R. 3563, H. R. 3566, H. R. 3567, H. R. 3569, and H. R. 3571, all providing for:

H. R. 3562, to protect the civil rights of individuals by establishing a Commission on Civil Rights in the executive branch of the Government, a Civil Rights Division in the Department of Justice, and a Joint Congressional Committee on Civil Rights, to strengthen the criminal laws protecting the civil rights of individuals, and for other purposes.

H. R. 3563, to declare certain rights of all persons within the jurisdiction of the United States, and for the protection of such persons from lynching, and for other purposes.

H. R. 3566, to amend and supplement existing civil-rights statutes.

H. R. 3567, to strengthen the laws relating to convict labor, peonage, slavery, and involuntary servitude.

H. R. 3568, to establish a Commission on Civil Rights in the executive branch of the Government.

H. R. 3569, to protect the right to political participation.

H. R. 3571, to reorganize the Department of Justice for the protection of civil rights.

It is too late, because I do not think that there is a Member in this House who

is so naive to believe that the legislation now before us, if successful here, will pass in the other body, although I hope and pray with all my heart that this bill, as inadequate as it might be, will get through the Senate. Every one of us knows that, with the 84th Congress adjourning at the end of the month and with the past masters of filibuster working in the Senate, this legislation when it gets over there will be talked to death.

If civil-rights legislation had been brought before us in February or March, when it should have been, some kind of a bill which would have been a step forward could have survived a filibuster in the Senate.

President Eisenhower talked about and recommended civil-rights legislation in his state of the Union message and then did nothing with his Attorney General or the Republican leadership in the House and Senate to get the legislation moving. When several Members of Congress requested action from the Attorney General concerning the legislation at hand, the Justice Department was strangely silent.

At this time, Mr. Chairman, I would like to commend the gentleman from Missouri [Mr. BOLLING], as I know that without his courage and fight in the Rules Committee this bill would still be in the chairman's pocket. His refusal to allow the chairman to ignore the bills, together with cooperation from the liberal members of the committee, is the reason why we are considering civil rights today.

Mr. Chairman, the Constitution of the United States is supposed to give all Americans, regardless of race or color, the blessings of our democracy. All Americans are entitled to equal protection under the law. One of the greatest rights of all Americans is the right to vote for all candidates for all offices and to run for office themselves without fear of being denied these privileges by violence. All Americans are entitled to be considered for appointive office in accordance with their ability to hold same. To narrow it down, they want the elimination of second class citizenship. I feel, Mr. Chairman, that that goal is within their grasp. Under the New Deal and Fair Deal administrations, Americans attained wide social gains. They have been the recipients of social security, unemployment compensation, public housing, the right to own their own homes by easily financing same over long periods of time at low interest rates, a minimum wage law and fair labor legislation. These gains have been steady, and, although criticized by the Republican Party as socialistic, I think it is safe to say that no Republican administration in the past has had the guts to try to take these gains away.

This week will be our opportunity to eliminate a lower status of citizenship for all Americans. We stand at the crossroads. To vote for the legislation now before us will be to follow the intelligent course. I know that there will be an organized and well planned fight against this legislation, but those who oppose it are only fooling themselves. The resistance offered in the House will not be successful. It may delay, but

those who seek to delay eventually must lose.

The day will come, Mr. Chairman, not in the too far distant future, when the industry that is fleeing from the North to the South to avoid organized labor, will be organized. The day will also come, Mr. Chairman, when all Americans in the South regardless of race will register and will vote for representatives in their State and Federal legislative bodies that will represent all of the people of their districts, instead of a chosen few. Then, Mr. Chairman, these representatives who today are fighting civil rights legislation, fighting legislation benefiting organized labor, fighting public housing legislation, will be knocking each other over to cast votes for civil rights, good labor legislation, minimum wage legislation, and for public housing and other liberal laws.

I know that the civil-rights legislation before us will pass the House. It is sensible law and what our Constitution provides. All of America is watching us, and the majority of the Nation agrees that the time has come when civil rights shall be the law of the land.

Mr. CELLER. Mr. Chairman, I yield 10 minutes to the gentleman from Illinois [Mr. O'HARA].

Mr. LONG. Mr. Chairman, I make the point of order a quorum is not present.

Mr. CELLER. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly the Committee rose; and the Speaker having resumed the chair, Mr. FORAND, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H. R. 627) to provide means of further securing and protecting the civil rights of persons within the jurisdiction of the United States, had come to no resolution thereon.

PAYMENT OF ANNUITIES TO WIDOWS AND DEPENDENT CHILDREN OF JUDGES

Mr. CELLER. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 11124) to amend title 28, United States Code, to provide for the payment of annuities to widows and dependent children of judges, with Senate amendments thereto, disagree to the Senate amendments, and agree to the conference asked by the Senate.

The SPEAKER. Is there objection to the request of the gentleman from New York? The Chair hears none, and appoints the following conferees: Messrs. CELLER, RODINO, ROGERS of Colorado, KEATING, and McCULLOCH.

SALE OF LANDS IN RESERVOIR AREAS

Mr. EDMONDSON. Mr. Speaker, I ask unanimous consent for the immediate consideration of the bill (H. R. 11702) to provide for the sale of lands in reservoir areas under the jurisdiction of the Department of the Army for cottage-site development and use.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

Mr. KEATING. Mr. Speaker, reserving the right to object, has the gentleman cleared this bill with someone on the minority side?

Mr. EDMONDSON. Mr. Speaker, I have discussed this bill with the minority leader [Mr. MARTIN], and also with the objectors' committee on both sides.

Mr. KEATING. And the minority leader has indicated he has no objection?

Mr. EDMONDSON. It is a department bill which has the clearance of General Services and the Bureau of the Budget.

Mr. KEATING. I was referring to the minority leader, who is temporarily away. Does he know about this?

Mr. EDMONDSON. He does, and he has indicated his agreement to the procedure.

Mr. KEATING. I withdraw my reservation of objection, Mr. Speaker.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That whenever the Secretary of the Army determines that any Government-owned lands within reservoir areas under his control (1) are not required for project purposes or for public recreational use, and (2) are being used for or are available for cottage site development and use, he is authorized to offer such lands, or any part thereof, for sale for such purposes in accordance with the provisions of this act: *Provided, however,* That any lands held under lease for cottage site purposes on the date of the approval of this act shall not be offered for sale to anyone other than the lessee until after 60 days from the date of the written notice to the lessee as provided in section 2 of this act, or the termination or expiration date of such lease, whichever is later, and the lessee shall have the right during such period to purchase any lands leased to him which the Secretary determines are available for sale.

SEC. 2. (a) Public notice of the availability of the lands for sale for cottage site development and use shall be given in such manner as the Secretary of the Army may by regulation prescribe, including publication within the vicinity of the lands available for sale: *Provided, however,* That notice to lessees of cottage sites shall be given in writing within 90 days after publication of such regulations in the Federal Register and the notice shall state the appraised fair market value of the land available for sale to such lessee.

(b) The sale of lands for cottage site development and use shall be accomplished by any method which the Secretary of the Army determines to be in the public interest, including public auction, seal bids, and by negotiation with lessees and with others after competitive bidding.

(c) The price to be paid for any lands sold for cottage site development and use pursuant to the provisions of this act shall be not less than the appraised fair market value thereof as determined by the Secretary of the Army.

(d) The Secretary of the Army is authorized to convey by quitclaim deed all the right, title, and interest of the United States in and to the lands sold for cottage site development and use pursuant to the provisions of this act, the conveyance to be on condition that the property conveyed shall be used for cottage site purposes only and in the event of use for any other purposes, title

to the land and improvements shall revert to and vest in the United States; and subject to such other conditions, reservations, and restrictions as the Secretary may determine to be necessary for the management and operation of the reservoir, or for the protection of lessees or owners of cottage sites within the area.

SEC. 3. The Secretary of the Army may, by quitclaim deed, deed of easement, or otherwise, transfer to the State in which lands sold for cottage site development and use pursuant to this act are located, or to any political subdivision thereof, or to any organization consisting of not less than 50 percent of the owners of cottage sites in the area, without monetary consideration, any lands being used or to be used for roads primarily to serve the cottage site areas: *Provided, however,* That the deed or other instrument transferring such land shall specifically provide for appropriate use and maintenance of the property by the State, political subdivision, or organization, and any deed conveying title to such lands for roadway purposes shall contain the condition and limitation that in the event the land conveyed shall fail or cease to be used for roadway purposes the same shall immediately revert to and vest in the United States.

SEC. 4. The costs of any surveys or the relocation of boundary markers necessary as an incident of a conveyance or other property transfer under this act shall be borne by the grantee.

SEC. 5. The Secretary of the Army may delegate any authority conferred upon him by this act to any officer or employee of the Department of the Army. Any such officer or employee shall exercise the authority so delegated under rules and regulations approved by the Secretary.

SEC. 6. The proceeds from any sale made under this act shall be covered into the Treasury of the United States as miscellaneous receipts.

Mr. EDMONDSON. Mr. Speaker, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. EDMONDSON: On page 1, line 4, after "lands", insert "other than lands withdrawn or reserved from the public domain."

The amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

MUSCATINE BRIDGE

Mr. SCHWENGEL. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 11010) creating the Muscatine Bridge Commission and authorizing said Commission and its successors to acquire by purchase or condemnation and to construct, maintain, and operate a bridge or bridges across the Mississippi River at or near the city of Muscatine, Iowa, and the town of Drury, Ill., with a Senate amendment thereto, and concur in the Senate amendment.

The Clerk read the title of the bill.

The Clerk read the Senate amendment, as follows:

Page 21, line 1, strike out "the bonds issued in connection therewith and."

The SPEAKER. Is there objection to the request of the gentleman from Iowa? There was no objection.

The Senate amendment was concurred in.

A motion to reconsider was laid on the table.

SIMPLIFY ACCOUNTING, FACILITATE THE PAYMENT OF OBLIGATIONS

Mr. HOLIFIELD (at the request of Mr. DAWSON of Illinois) submitted the following conference report and statement on the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes:

CONFERENCE REPORT (H. REPT. No. 2726)

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "That (a) the account for each appropriation available for obligation for a definite period of time shall be closed as follows:

"(1) On June 30 of the second full fiscal year following the fiscal year or years for which the appropriation is available for obligation, the obligated balance shall be transferred to an appropriation account of the agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

"(2) Upon the expiration of the period of availability for obligation, the unobligated balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided,* That when it is determined necessary by the head of the agency concerned that a portion of the unobligated balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the unobligated balance may be restored to the appropriate accounts: *Provided further,* That prior thereto the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require, and shall submit such report to the Director, the Comptroller General, the Speaker of the House of Representatives, and the President of the Senate.

"(b) The withdrawals required (by subsection (a) (2) of this section shall be made—

"(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this Act; or

"(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation, which, on the date of approval of this Act is available only for disbursement.

"(c) For the purposes of this Act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation; the unobligated balance shall represent the difference between the obligated balance reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)), and the total unexpended balance. Collec-

tions authorized to be credited to an appropriation but not received until after the transfer of the obligated appropriation balance as required by subsection (a) (1) of this Act, shall, unless otherwise authorized by law, be credited to the account into which the obligated balance has been transferred, except that any collection made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

"(d) The withdrawals made pursuant to subsection (a) (2) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation. The withdrawals described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

"SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

"SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically, but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess, not to exceed the remaining unobligated balances of the appropriations available for the same general purposes, may be restored to such account. A review shall be made as of the close of each fiscal year and the restorations or withdrawals required or authorized by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which restorations or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished: *Provided*, That prior to any restoration under this subsection the head of the agency concerned shall make such report with respect thereto as the Director of the Bureau of the Budget may require.

"(b) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

"SEC. 4. During the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the obligated balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b),

shall be transferred to the related appropriation accounts established pursuant to this Act and the unobligated balance shall be withdrawn.

"SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may, upon the expiration of the second full fiscal year following the fiscal year or years for which such appropriations are available for obligation, be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

"SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled; or in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

"SEC. 7. The following provisions of law are hereby repealed:

"(a) The proviso under the heading 'PAYMENT OF CERTIFIED CLAIMS' in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

"(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

"(c) The paragraph under the heading 'PAYMENT OF CERTIFIED CLAIMS' in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

"(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

"(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

"(f) Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation which is limited for obligation to a definite period of time to remain available for expenditure for more than the two succeeding full fiscal years, but this subsection shall not be effective until June 30, 1957.

"SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia or appropriations to be disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

"SEC. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

And the Senate agree to the same.

WILLIAM L. DAWSON,
ROBERT E. JONES,
JOE M. KILGORE,
CLARENCE J. BROWN,
CHARLES R. JONAS,

Managers on the Part of the House.

JOHN F. KENNEDY,
THOMAS A. WOFFORD
NORRIS COTTON,

Managers on the Part of the Senate.

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 9593) to simplify

accounting, facilitate the payment of obligations, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The conference substitute is the same as the bill as it passed the House, except in two minor respects. The House report contained a provision that the head of the agency shall make a report with respect to restorations as the Director of the Budget may require. The corresponding provision of the Senate amendment required that such report be made to the chairmen of the Committees on Appropriations of the Senate and the House of Representatives and to the Comptroller General of the United States and to the Director of the Bureau of the Budget. The conference substitute provides that such report be submitted to the Director of the Budget, the Comptroller General, the Speaker of the House of Representatives, and the President of the Senate.

The House bill postponed the transfer of the obligated balances during the fiscal year following the fiscal year in which this act becomes effective. The conference substitute provides that such transfer shall be made during the fiscal year in which the act becomes effective.

WILLIAM L. DAWSON,
ROBERT E. JONES,
JOE M. KILGORE,
CLARENCE J. BROWN,
CHARLES R. JONAS,

Managers on the Part of the House.

FEDERAL INTERMEDIATE CREDIT BANKS

Mr. POAGE. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes, with Senate amendments thereto, and concur in the Senate amendments.

The Clerk read the title of the bill.

The Clerk read the Senate amendments, as follows:

Page 4, line 21, strike out all after "States." over to and including "bank," in line 3 on page 5 and insert "Stock of each Federal intermediate credit bank held by the Secretary of the Treasury shall be transferred to the Governor who shall exchange such stock for an equal amount of class A stock of such bank. The Governor is authorized thereupon to reallocate the investment of the United States in such banks in such manner as he determines necessary to meet the needs of the respective banks. Any transfers of capital funds required as a result of such reallocation shall be made in four equal installments, the first of which shall be made on January 1, 1957, and one of which shall be made on the first day of each of the next succeeding three calendar years. Upon each such transfer of capital funds the Governor shall require an appropriate adjustment in the class A stock of each such bank."

Page 5, line 22, after "to" insert "\$30,000,000 plus."

Page 17, line 17, strike out "\$100,000,000" and insert "\$70,000,000."

Page 24, line 3, strike out "Act" and insert "subsection."

Page 25, line 2, strike out "next following its enactment" and insert "1957, except subsections (a) and (b) of section 201, which shall become effective January 1, 1959."

The SPEAKER. Is there objection to the request of the gentleman from Texas?

Mr. KEATING. Mr. Speaker, reserving the right to object, may I inquire of the gentleman whether this has been cleared with the ranking minority member of the committee?

Mr. POAGE. It has been cleared with the ranking minority member and with the minority leader.

Mr. KEATING. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

The Senate amendments were concurred in.

A motion to reconsider was laid on the table.

APPOINTMENT OF DOCTORS OF OSTEOPATHY

Mr. SHORT. Mr. Speaker, I call up the conference report on the bill (H. R. 483) to amend the Army-Navy-Public Health Service Medical Officer Procurement Act of 1947, as amended, so as to provide for appointment of doctors of osteopathy in the Medical Corps of the Army and Navy, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Missouri?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of July 12, 1956.)

Mr. SHORT. Mr. Speaker, I move the previous question on the conference report.

The previous question was ordered.

The conference report was agreed to.

A motion to reconsider was laid on the table.

SPECIAL ORDERS POSTPONED

Mr. WILSON of California. Mr. Speaker, I ask unanimous consent that the special orders granted the gentleman from Arizona [Mr. RHODES] and myself, for tomorrow, be postponed until Thursday.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

CERTAIN CONSTRUCTION AT MILITARY INSTALLATIONS — VETO MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 450)

The SPEAKER laid before the House the following veto message from the President of the United States:

To the House of Representatives:

I return herewith, without my approval, H. R. 9893, "to authorize certain construction at military installations, and for other purposes."

The bill authorizes the Secretaries of the Army, Navy, and Air Force to establish or develop military installations and facilities by acquiring, constructing, converting, rehabilitating, or installing permanent or temporary public works and family housing necessary for the operation of the armed services.

While I recognize the manifest importance of this measure to national defense, I cannot approve it so long as it contains certain provisions found in sections 301 and 419.

Section 301 provides that none of the authorization contained in that section relating to the Talos missile "shall be effective until the Secretary of Defense shall have come into agreement with the Armed Services Committees of the Senate and of the House of Representatives with respect to its utilization." If the committees should fail or decline to agree to the plans prepared by the Secretary of Defense, the practical effect of this provision would be to lodge in the committees the authority to nullify congressional authorization. The provision would also compel the Secretary of Defense, an executive official, to share with two committees of the Congress the responsibility for the carrying out of the Talos missile authorization. This procedure would destroy the clear lines of responsibility which the Constitution provides.

Section 419 provides that:

Notwithstanding any other provisions of this act or any other law, no contract shall be entered into by the United States for the construction or acquisition of family housing units by or for the use of the Department of Defense unless the Department of Defense, in each instance, has come into agreement with the Armed Services Committee of the Senate, and House of Representatives.

While the Congress may enact legislation governing the making of Government contracts, it may not constitutionally delegate to its Members or committees the power to make such contracts, either directly or by giving them the authority to approve or disapprove a contract which an executive officer proposes to make.

Two years ago I returned, without my approval, a bill, H. R. 7512, 83d Congress, containing similar provisions. At that time I stated that such provisions violate the fundamental constitutional principle of separation of powers prescribed in articles I and II of the Constitution, which place the legislative power in the Congress and the executive power in the executive branch.

Once again, I must object to such a serious departure from the separation of powers as provided by the Constitution. Any such departure from constitutional procedures must be avoided. I am persuaded that the true purpose of the Congress in the enactment of both of these provisions was to exercise a close and full legislative oversight of important programs of the Department of Defense. This purpose can be properly attained by requiring timely reports from the Executive. Such reports would provide the Congress with the basis for any further legislative action it may find to be necessary.

Accordingly, I am returning H. R. 9893, with my urgent recommendation that it be reenacted without the objectionable provisions.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, July 16, 1956.

The SPEAKER. The objections of the President will be spread at large upon the Journal.

Mr. KILDAY. Mr. Speaker, I move that the bill and message be referred to the Committee on Armed Services and ordered to be printed.

The motion was agreed to.

THE LATE THOMAS R. UNDERWOOD

(Mr. WATTS asked and was given permission to address the House for 1 minute and to revise and extend his remarks and include an article and an editorial.)

Mr. WATTS. Mr. Speaker, it is with profound sorrow that I have to announce the death, on June 29 last, of Hon. Thomas Rust Underwood, a former member of this House and a former Member of the Senate from Kentucky.

Death was attributable to a coronary occlusion which he had suffered several days previous. He was stricken while returning from participating in the work of the State central committee of the Democratic Party, the governing body of the party in Kentucky. In this work, he was doing that which he loved.

Thomas Rust Underwood was born in Hopkinsville, Ky., on March 3, 1898, the son of Thomas E. and Frances Rust Underwood. He attended the public schools of Hopkinsville and the University of Kentucky.

Tom Underwood truly was born to his chosen fields of endeavors—politics and journalism, as his mother was a former president of the Women's Democratic Club of Kentucky, and his father a former editor of the Hopkinsville New Era newspaper.

Prior to the completion of his formal education at the University of Kentucky, he became affiliated with the newspaper he was to serve for the rest of his life. In 1917, he became a reporter for the Lexington Herald and it was not long before his unusual abilities and talents brought him recognition. His political prognostications were uncanny in their accuracy; his observations poignant in their effectiveness, and his persuasiveness weighed heavily in molding public opinion.

His formal baptism into Kentucky politics was in the successful campaign of the Honorable William J. Fields for the Governorship of Kentucky in 1923. In this campaign, Tom Underwood served as State publicity chairman for the Democratic ticket.

Subsequently, throughout the years, he fought the battles of the Democratic Party on all levels—local, State, and National. Because of his fine qualities of leadership, his levelheadedness and his practicalness, he had a most extraordinary knack of bringing folks together. He was of inestimable value in compromising differences and insuring a unison of effort by the party at the polls.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

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CONTENTS

Accounting.....9	Flood insurance.....27	Postal rates.....15
Animal disease.....32	Food and drugs.....38	Reclamation.....2,16,31
Appropriations.....16	Food bank.....13	Research.....17,25,32
Atomic energy.....20	Foreign aid.....16,36	Rubber.....25,32
Attaches.....32	Forestry.....11,17,19,35	Security.....34
Banking.....29	FS.....32	Small business.....33
Budgeting.....9	Grain.....28	Social security.....6
Cooperatives.....21	Great Plains.....32	Soil bank.....17
Cranberries.....32	Humane slaughter.....12	Surplus commodities..18,36
Dairy industry.....15	Labor, farm.....23	Tariff.....10
Electrification.....7,21	standards.....30	Taxation.....14
Executive pay.....16	Lands.....17,24,37	Trade, foreign.....10,32
Farm income.....5	Legislative program..16,32	Transportation.....22
FCIC.....17,32	Marketing.....32	Trip leasing.....22
FHA.....32	Military construction..18	Water.....4
Fisheries.....8	Minimum wages.....30	Watersheds.....1
Flood control.....1	Personnel.....3,26,39	

HIGHLIGHTS: House passed new military construction bill. House Rules Committee cleared atomic power bill. House committees reported bills to authorize land exchange between USDA and Defense Department, dispose of rubber plant, authorize travel allowance for new appointees, provide flood insurance, and protect integrity of grain grade certificates. Sen. Morse introduced and discussed bill to transfer certain Siskiyou National Forest lands to Oreg. Rep. Spence introduced bill to implement the International Wheat Agreement. Senate committee reported water rights bill. Sen. Aiken stated farm income moving upward. Sen. Johnson stated farm income (Continued on page 6)

SENATE

1. WATERSHEDS. Received from the Budget Bureau plans for works of improvement on watershed protection and flood control in the States of Md. and N. J.; to Agriculture and Forestry Committee. p. 11799
2. RECLAMATION. The Interior and Insular Affairs Committee reported without amendment S. 3728, to provide for the construction by the Secretary of the Interior of the San Angelo Federal reclamation project, Tex. (S. Rept. 2608). p. 11801
3. PERSONNEL. The Post Office and Civil Service Committee reported with amendment S. 3725, to provide for increases in the annuities of annuitants under the Civil Service Retirement Act (S. Rept. 2610). p. 11801
4. WATER RIGHTS. The Interior and Insular Affairs Committee reported with amendment S. 863, to govern the control, appropriation, use and distribution of water (S. Rept. 2587). p. 11801

5. FARM INCOME. Sen. Aiken expressed gratification relative to the report of this Department indicating that farm income is moving upward. p. 11808
Sen. Johnson stated that total cash income of Texas farmers has declined this year, and inserted a constituent's letter to support his position. p. 11838
6. SOCIAL SECURITY. Passed, by a vote of 90 to 0, H. R. 7225, the social security bill (pp. 11811, 11839, 11849, 11878, 11884, 11886, 11897 and 11902). Agreed to clarifying amendment by Sen. Capehart to exempt certain agricultural labor from the bill unless they are engaged in production or "management of production" of agricultural commodities (p. 11904). Conferees were appointed (p. 11920).
7. ELECTRIFICATION. Several Senators discussed and inserted material relative to the construction of the Hells Canyon dam. pp. 11812, 11830, 11843, 11890
8. FISHERIES. Conferees were appointed on S. 3275, to establish a sound and comprehensive national policy with respect to fisheries; to strengthen the fisheries segment of the national economy; to establish within the Department of the Interior a Fisheries Division; and to create and prescribe the function of the U. S. Fisheries Commission. (House conferees have not yet been appointed). p. 11873
The Interstate and Foreign Commerce Committee ordered reported with amendment S. 3831, to provide for the establishment of a fish hatchery in W. Va. p. D816
9. BUDGETING; ACCOUNTING. Conferees were appointed on S. 3897, to improve governmental budgeting and accounting methods and procedures. (House conferees have not yet been appointed). p. 11892
Agreed to the conference report on H. R. 9593, to simplify accounting and facilitate the payment of obligations. p. 11897
10. FOREIGN TRADE. Made as its unfinished business H. R. 6040, to amend certain administrative provisions of the Tariff Act of 1930 and to repeal obsolete provisions of the customs laws. p. 11920
11. FORESTRY. Passed without amendment H. R. 8898, to provide an additional authorization of appropriations for the purchase by the Secretary of Agriculture of lands within the boundaries of the Cache National Forest, Utah. This bill will now be sent to the President. p. 11920
12. LIVESTOCK SLAUGHTER. The Agriculture and Forestry Committee reported with amendment S. 1636, to require the use of humane methods in the slaughter of livestock and poultry in interstate or foreign commerce (S. Rept. 2617). p. 11921
13. FOOD RESERVE. The Foreign Relations Committee ordered reported with amendment an original concurrent resolution stating that it is the sense of the Congress that the President should explore with other nations the establishment of an international food and raw materials reserve under the auspices of the U. N. and related organizations (a number has not yet been assigned the resolution). p. D816
14. TAXATION. Received a telegram from a Calif. State Senate committee favoring enactment of S. 4183, to authorize the payment to local governments of sums in lieu of taxes and special assessments with respect to certain Federal real property; to Government Operations Committee. p. 11799

the only system of government in the world worth talking about.

We move slowly through a body of elected representatives in the Houses of Congress. Each one of those gentlemen had his own little bailiwick to look after, his own problems and, in an election year, his own fences to mend. They're a pretty busy, hard-working, dedicated group and they, too, if anyone should ask you, are very much underpaid. Busy as they've been this year though, they listened to, absorbed, and understood the story laid before them by our military airmen.

Congress understands, Congress is aroused. Therefore, America is aroused. The will of the American people has been made known to the world.

We will not allow ourselves to become the weaker power. We will maintain our air superiority. Our intercontinental bombing capability will, by the people's mandate, always be second to none.

COST OF CONSTRUCTING RAILWAY-HIGHWAY GRADE ELIMINATION STRUCTURES IN THE DISTRICT OF COLUMBIA

The PRESIDING OFFICER (Mr. GORE in the chair) laid before the Senate the amendments of the House of Representatives to the bill (S. 2895) to amend the acts of February 28, 1903, and March 3, 1927, relating to the payment of the cost and expense of constructing railway-highway grade elimination structures in the District of Columbia, which were on page 2, line 17, to strike out all after "project" down through and including "1944" in line 21, and on page 4, line 15, to strike out all after "project:" down through line 18.

Mr. BIBLE. Mr. President, the amendments of the House of Representatives are acceptable.

I move that the Senate concur in the amendments of the House of Representatives. This motion has the unanimous approval of the conferees.

The motion was agreed to.

DENIAL OF MAILING PRIVILEGES TO DEALER IN LEWD PICTURES

Mr. LANGER. Mr. President, I should like to insert into the RECORD at this point an article appearing in the Washington Evening Star last night, July 16, with an Associated Press byline, stating that mail privileges have been denied a big dealer in lewd pictures, namely, Irving Klaw, of New York.

This is one of the effective pieces of work that the United States Senate Juvenile Delinquency Subcommittee has done. Five or six other dealers in lewd and pornographic material who have appeared before our subcommittee hearings, have also been convicted either in a State or Federal court, or have been put out of business by an agency of the Federal or State Governments.

Mr. Klaw has been denied the use of the mails by the United States Post Office Department. He has done over \$1½ million a year business in lewd pictures.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

MAIL PRIVILEGES DENIED BIG DEALER IN LEWD PICTURES

The Post Office Department announced today it has denied use of the mails to Irving Klaw of New York, described by the Depart-

ment as "one of the Nation's largest dealers in pornographic material."

The announcement said the objective of the ban was to prevent use of the postal system "to advertise and sell his particular brand of obscene photographs, drawings and cartoons of a peculiarly sadistic type."

Postal employees were directed to intercept mail addressed to Klaw, stamp it "unlawful mail," return it to the sender if there is a return address, and if not dispose of it as "dead matter."

The department said Klaw's sales of pornographic material are estimated to run to more than \$1.5 million a year.

The department said that Klaw, in 1955, claimed protection of the fifth amendment against self-incrimination in refusing to answer questions before a Senate committee investigating juvenile delinquency, and subsequently drew a Senate contempt citation.

SIMPLIFICATION OF ACCOUNTING AND FACILITATION OF PAYMENT OF OBLIGATIONS—CONFERENCE REPORT

Mr. KENNEDY. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The legislative clerk read the report. (For conference report, see House proceedings of July 16, 1956, pages 11786-11787, CONGRESSIONAL RECORD.)

The PRESIDING OFFICER. Is there objection to the present consideration of the report?

There being no objection, the report was considered and agreed to.

LOW RENT HOUSING PROGRAM

Mr. CAPEHART. Mr. President, I ask unanimous consent to have printed in the RECORD at this point as a part of my remarks a letter which I have received from Albert M. Cole, Administrator of the Housing and Home Finance Agency, together with a statement I have prepared on public housing.

There being no objection, the letter and statement were ordered to be printed in the RECORD, as follows:

HOUSING AND HOME FINANCE AGENCY,
Washington, D. C., July 16, 1956.

Hon. HOMER E. CAPEHART,
United States Senate,
Washington, D. C.

DEAR SENATOR CAPEHART: The following figures on the low-rent program are furnished at your request:

June 30, 1955: Units under annual contributions contracts, but not under construction.....	57,740
July 1, 1955, to June 30, 1956:	
New annual contributions contracts executed.....	+4,371
Contracts prior to 1949 reactivated.....	+670
	62,781
Units dropped in contract adjustments.....	-218
	62,563
Units put under construction....	7,286

June 30, 1956: Units under annual contributions contracts, but not under construction..... 55,277

Sincerely yours,

ALBERT M. COLE,
Administrator.

STATEMENT BY SENATOR CAPEHART

I should like to set the record straight as to the rate at which the local housing authorities throughout the country are able to plan and execute low-rent projects. The facts show that the President's proposal authorizing the Public Housing Administration to make annual contributions contracts for 35,000 units for each of the next 2 years is wholly adequate. The following figures were furnished me at my request by the Housing and Home Finance Agency.

June 30, 1955: Units under annual contributions contracts, but not under construction..... 57,740

July 1, 1955, to June 30, 1956:
New annual contributions contracts executed..... +4,371
Contracts prior to 1949 reactivated..... +670

62,781
Units dropped in contract adjustments..... -218

62,563
Units put under construction.... 7,286

June 30, 1956: Units under annual contributions contracts, but not under construction..... 55,277

It is important to note that although a year ago there were over 50,000 units authorized to be built, construction has only been started on some 7,000 units since then. This was not due to any attempt by the Federal Government to slow down the program.

It is entirely the result of difficulties encountered at the local level.

It is obvious that any insistence on a figure above that proposed by the President, and included in the bill which I introduced, is completely unrealistic and politically inspired.

SOCIAL SECURITY AMENDMENTS OF 1956

The Senate resumed the consideration of the bill (H. R. 7225) to amend title II of the Social Security Act to provide disability insurance benefits for certain disabled individuals who have attained age 50, to reduce to age 62 the age on the basis of which benefits are payable to certain women, to provide for continuation of child's insurance benefits for children who are disabled before attaining age 18 to extend coverage, and for other purposes.

Mr. MAGNUSON. Mr. President, I ask unanimous consent to have printed in the body of the RECORD a statement of my own on the pending bill.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR MAGNUSON

Pending before the United States Senate is one of the most important measures we will be called to act upon before adjournment—the social-security bill.

I should like to urge my fellow Members on both sides of the aisle to join with me in passing legislation to lower the social-security-retirement age for women from age 65 to age 62. This provision would make it possible for all women—women workers—and wives of retired workers—and dependent mothers of workers who have died—as well as widows to be entitled to social-security

benefits at age 62 instead of waiting until age 65 as is the case in existing law. According to estimates—about 800,000 women would receive benefits immediately if this bill is enacted into law—and another 400,000 women in this age group—who are working or are wives of workmen—would become eligible to draw benefits in case they retire. In about 25 years—when a larger proportion of people will have qualified—1,800,000 more women will be receiving benefits than would be the case under existing law.

Under the bill a woman worker could become eligible for benefits at age 62—the age for men would continue to be age 65—widows and surviving dependent mothers would become eligible for benefits 3 years earlier than is the case under existing law. And the wife of a retired worker would also become eligible for a wife's benefit when he retires at age 65 if she is younger than her husband by 3 years or less. Under existing law such a retired worker receives only his own benefit until his wife reaches age 65—at which time the amount of the family benefit is increased 50 percent by the wife's benefit.

The case for including wives in their provision arises because—although the principle of social security is that a retired married couple should not have to get along on the same amount as is provided for a single person—the fact is that wives are generally a few years younger than their husbands. In such circumstances it is necessary for the retired couple to live on a single payment for a period of years until the wife can qualify until she, too, has reached her 65th birthday. Under the amendments such couples would become eligible for the full family benefits at an earlier date than under existing law—thus reducing the waiting period for family benefits.

I submit that lowering the age for women from 65 to 62 would not only bring more of the sunshine of life into the lives of these women—but would strengthen the entire economy of our Nation.

We must not be content with merely lowering the eligibility age for women to 62.

We must remember other groups badly in need of help from this Congress. My colleagues—Senator RUSSELL LONG of Louisiana and Senator WALTER GEORGE of Georgia—recognize several of these categories. I joined with them in an attempt in committee to increase—for example—the Federal portion of the matching program for old age pensions paid by the various States.

Under the old age amendment—the Federal Government would match the first \$5 State contribution with \$25 monthly of Federal funds instead of the \$20 as provided by existing law. The Federal Government then would match on a 50-50 basis all additional State contributions up to a total of \$65 instead of the \$55 maximum as presently provided.

An important feature of that amendment which was considered by Senate committee was a "pass along" provision to require that States availing themselves of the new matching formula—not reduce their average contributions per person. The practical effect of this amendment would be to increase welfare payments to persons over 65 years by at least \$5 per recipient and in some cases by as much as \$7.50 per recipient. For example, enactment of this amendment—with the pass along provisions, of course—would affect 58,289 persons in Washington State and result in the State receiving \$5,128,057 in additional Federal funds—on the basis of assistance rolls of last September.

I emphasize the "pass along" provision because unless we enact this, then many States—as did my State of Washington the last time Congress increased the Federal contribution—could pocket the additional

money and maintain old age grants as they were.

In addition, I submitted to the committee an amendment increasing by the same proportion, payments under our blind totally and permanently disabled, and aid to dependent children programs.

My colleagues, Senator LONG and Senator GEORGE agreed to amendments covering blind, and totally and permanently disabled. In fact, they rewrote their amendment and included my proposals in it.

That amendment, I understand, is at the desk at this moment and the Senate shall have an opportunity to vote upon it before the social security bill comes up for final approval.

The Long amendment follows past precedents of the Congress in improving all the categories of public assistance simultaneously rather than changing the matching formula for only one of the categories.

Our Nation can surely afford to be more generous to the blind, and to the permanently and totally disabled as well as to the aged. The additional outlay of \$100 million or perhaps \$200 million a year would relieve much suffering, would increase markets for farm products, and would add to the well-being of communities throughout the country. The investment would be more than repaid in human welfare, a more productive population, and greater prosperity.

The resultant increase in payments would be \$5 to \$7.50 a month for some 105,000 blind persons and 244,000 permanently and totally disabled persons now receiving assistance.

Because programs for the blind and totally and permanently disabled are included in the Long amendment, I would now confine my remarks to the increase so vitally needed in the aid-to-dependent-children's program.

We must ever seek ways to improve and broaden this great cornerstone of our democracy, social security. One of these ways is contained in the amendment which I have at the desk, which will extend aid to dependent children to a level commensurate with other social-security beneficiaries.

Such an amendment would be, in my opinion, simple justice. Under this amendment to the aid-to-dependent-children categories, the mother or the other relative with whom the child lives would receive increased payments on the same basis as the aged. For widows with dependent children, this means an increase in the individual's monthly payment, to which the Federal Government will contribute from \$30 to \$65. Each child would receive an increased Federal payment ranging from \$3 to \$4.50 per month, or, if the State matches, up to a total of \$6 more if the State makes full use of the Federal increase.

As a result of my amendment the Federal Government would offer to pay five-sixths of the first \$30 a month paid on the average by a State—to the mother or other relative caring for dependent children. This would be instead of the present formula of four-fifths Federal matching up to \$25. Above the initial \$30 there would be offered 50-50 matching of Federal and State funds up to a maximum of \$65 instead of the present \$55.

For dependent children—the five-sixths matching would apply for the first \$18—and the 50-50 matching would be available up to \$36 a month for the first child in a family and up to \$27 for each other child. A monthly increase in payments for each child of \$3 to \$4.50 would probably result.

These more liberal Federal matching grants would be made available to the States on the same pass-along basis proposed in the earlier amendment for the aged—in order to assure that increased payments to the recipients would result.

Any State desiring to avail itself of the liberalized matching formula would have to demonstrate that the average State con-

tribution has not been reduced from the 1955 level. If a State does not desire to comply with this requirement, the State would be permitted to continue Federal matching as under existing law, namely on the formula established by the McFarland amendment in 1951.

Congress has never provided grant formulas as liberal for dependent children as for the other categories. My amendment would establish more equal treatment by providing the same matching formula for the mother or other relative caring for the children as is provided for the aged, the blind, or the disabled. Some 600,000 adults would have the advantage of this improvement, and over 1,500,000 children, in their care, would also benefit.

Only 26 percent of the Federal funds spent for public assistance goes to help dependent children and adults caring for them—although together they constitute 43 percent of the persons receiving public assistance.

I myself would gladly go still further in providing more generous Federal grants for assistance to dependent children. The average monthly payment they receive is far too low—only \$32 per child or \$24 per recipient as compared to the monthly average of \$54 received by the aged and \$58 by the blind. More than one million and a half children are now receiving such aid.

I estimate that my amendment would increase Federal outlays to children by \$3 to \$4.50 a month—or—in round figures by between \$46 and \$54 a year depending on the number of cases and the liberality of the States. The prospective total outlay at the higher figure by the Federal Government would be well under \$100. It would be supplemented by the additional grants for mothers or other relatives caring for the children.

These expenditures would be both humane and sound.

I want to say that since I first introduced this amendment early this year—I have received many hundreds of letters from widows and parents who would be affected by this amendment. They have informed me that they have been receiving scaled-down and—in many cases—totally inadequate and unrealistic payments under the aid to dependent children program in my own and other States.

Denying these payments to widows and others with dependent children contributes to the growing juvenile delinquency problem in this country—which has been so ably and dramatically analyzed by the subcommittee headed by by esteemed colleague—the senior Senator from Tennessee. My amendment—I am advised by the Department of Health, Education and Welfare—will affect some 1,700,000 children and approximately 600,000 widows and other caretakers of young, dependent children.

I hold that it is a short-sighted policy to deny so many young children the help which may lead them toward a happier, healthier, and more useful life for themselves and their country. In many cases—cases that I know about in my own State—these children come from broken homes—homes where the father has died or has deserted his wife. Many of these mothers have not been trained at jobs or professions with which they can adequately support themselves and their children. Many of them have been tossed, so to speak, into the deep sea of life and are desperately dog-paddling to stay afloat.

This amendment, in short, would represent an important move toward meeting one of the significant deficiencies in our present social security legislation. I hope the Members of this distinguished body will join with me in seeing that common justice is done for the 1,700,000 children of our country now receiving public assistance and the 600,000

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 23, 1956
For actions of July 20 and 21, 1956
84th-2nd, Nos. 124 & 125

CONTENTS

Accounting.....7	Great Plains.....64	Publications.....29
Acreage allotments.....75	Guam.....48	Reclamation
Adjournment.....50,65	Housing.....32,60,645,17,20,38,61,64
Animal disease.....52	Humane slaughter.....48	Reports.....10,49
Appropriations.....4,11,15,19	Imports.....9,16,58,64	Retirement.....18,48,53
.....44,47,52,64,66,71	Information.....10,64	School milk.....36
Atomic energy.....64	Labor, farm.....64	Security.....37,52
Budget Bureau.....26,52	Lands.....48,52,59,73	Seeds.....48
C.....3	Legislation.....71	Small business.....40
Contracts.....28,62,64	Legislative program	Social security.....8,43,51,69
Cranberries.....6411,25,48,64	Soil bank.....68
Customs.....6,54	Libraries.....29	Stockpiling.....70
Education.....46	Loans, farm	Surplus commodities
Electrification.....61,642,13,17,32,42,561,10,67
Enforcement activities.....27	Marketing.....64	Tariffs.....63
Executive pay.....18,53	Minimum wages.....64	Textiles.....30
Dairy industry.....72	National debt.....71	Trade, foreign.....1,9,22
Farm-City Week.....23	Natural resources.....14,39	Transportation.....21
Farm program.....71	Nominations.....13	Trip leasing.....21
FHA.....66	OGC.....66	Twine.....9
Fisheries.....48	Patents.....24	Veterans' benefits.....42
Flood control.....31,64	Personnel	Water.....48
Flood insurance.....5710,18,27,35,53,64,74	Watersheds.....12,33,55
Food and drugs.....45	Point-of-order.....64	Wheat.....48
Food distribution.....10	Price reporting.....41,48	Wool.....58,64
Foreign aid.....15,16,47	Property.....48	World Trade Fair.....22
Forestry.....34,39,41,48,52,66		

HIGHLIGHTS: House agreed to conference report on CCC borrowing power bill. Senate passed watershed bill. House committee reported second supplemental appropriation bill. House agreed to conference report on bill to facilitate payment of obligations. Senate passed executive pay and retirement bill. Senate confirmed nomination of Hansen as FHA Administrator. Senate committee reported resolution favoring water resource development. Conferees agreed to report bills to increase Public Law 480 authorization, and amend social security laws. Senate debated mutual security appropriation bill. Senate agreed to conference report on small reclamation project bill. (Continued on page 9)

HOUSE - July 20

1. FOREIGN TRADE; SURPLUS COMMODITIES. The conferees agreed to file a report (but did not actually do so) on S. 3903, to increase the amount authorized for title 1 of the Agricultural Trade Development and Assistance Act of 1954. p. D850
House conferees on this bill had been appointed earlier in the day.
p. 12512

2. FARM LOANS. The conferees agreed to file a report on H. R. 11544, to improve and simplify the credit facilities available to farmers and to amend the Bankhead-Jones Farm Tenant Act (but did not actually do so). p. D850
3. CCC BORROWING POWER. Agreed to the conference report on S. 3820, to increase the borrowing power of the Commodity Credit Corporation to \$14.5 billion and to amend the penalty provision of the CCC Charter Act. p. 12550
4. SECOND SUPPLEMENTAL APPROPRIATION BILL, 1957. The Appropriations Committee reported without amendment this bill, H. R. 12350 (H. Rept. 2849). p. 12567
5. RECLAMATION. Received the conference report on S. 497, to authorize the Washoe reclamation project, Nev. and Calif. p. 12511
6. CUSTOMS SIMPLIFICATION. Conferees were appointed on H. R. 6040, the customs simplification bill. p. 12549
7. ACCOUNTING. Agreed to the conference report on H. R. 9593, to simplify accounting and facilitate the payment of obligations. This bill will now be sent to the President. p. 12550
8. SOCIAL SECURITY. The conferees tentatively agreed to language for a conference report on H. R. 7225, the social security bill. The conferees are to meet July 24 for final review of the report. p. D850
9. TWINE IMPORTS. Rep. Marshall referred to an announcement of an executive branch hearing on the possibility of imposing a tariff on the importation of baler and binder twine and stated that American farmers "are asked in effect to bear the higher cost of producing their goods as a kind of direct subsidy to the cordage industry." p. 12552
10. PERSONNEL; SURPLUS COMMODITIES; INFORMATION. The Government Operations Committee approved the following subcommittee reports: "Employment and Utilization of Experts and Consultants," "Distribution of Surplus Agricultural Commodities to Schools and Institutions in Illinois," "Availability of Information From Federal Departments and Agencies." p. D849
11. LEGISLATIVE PROGRAM for this week was announced as follows: Mon., Consent Calendar, bills under suspension of rules, and possibly second supplemental appropriation bill. Tues., civilian atomic power bill.

SENATE - JULY 20

12. WATERSHEDS. Passed with amendments H. R. 8750, to amend the Watershed Protection and Flood Prevention Act. Agreed to an amendment by Sen. Kerr to provide for committee review of projects on which the Federal contribution exceeds \$250,000 (the bill as reported provided for such review when the total cost exceeds that amount). Agreed to an amendment by Sen. Hruska to modify the requirement for employment of engineers in connection with watershed projects so as to make the requirement apply only to projects for storage of water for municipal or industrial purposes. Sen. Aiken criticized the transfer of this bill from the Agriculture and Forestry Committee to the Public Works Committee. Senate conferees were appointed. p. 12428
13. NOMINATION; FARM LOANS. Confirmed the nomination of Kermit H. Hansen to be Administrator of the Farmers' Home Administration. p. 12422

ple who have been under the influence of this propaganda that the gentleman speaks about. On the basis of his argument, I am quite convinced that these charges are probably groundless. However, I am wondering if the gentleman might tell the House, if he knows, what the motives are of the people who have stood up such a tremendous propaganda campaign against this bill.

Mr. O'BRIEN of New York. I thank the gentleman for his question, and I am in a position where I must only guess what the motives are.

Mr. WILLIAMS of Mississippi. I am at a loss to understand, myself.

Mr. O'BRIEN of New York. But I think one motive is this. There is a certain group in our society, in our Nation, which is opposed to any advancement whatsoever in the field of mental health, who would, if they had the chance, tear down the mental health hospitals we have in our several States and would consider the ideal way to treat sick people is to return to the village madhouse.

Mr. WILLIAMS of Mississippi. Can the gentleman see the profit motive in there?

Mr. O'BRIEN of New York. I would not like to charge that, because there is only one group which could profit by the defeat of this conference report, and that is the group which is running Morning-side Hospital. The profit there has been very substantial. It is a profit which has been made on the caring for sick people. That is legal, but, as I say, I am not interested in those profits.

May I say briefly, Mr. Speaker, that there is no question of credit here. I have said that this is an administration bill. It bears the name of the gentleman from Oregon. I have fought for it as best I could. But, this did not start at this session; it began before I came to Congress. For example, the distinguished gentleman from Pennsylvania [Mr. SAYLOR], fought long and hard for this legislation and secured its passage through this House in the 83d Congress.

Mr. ROGERS of Texas. Mr. Speaker, will the gentleman yield?

Mr. O'BRIEN of New York. I yield to the gentleman from Texas.

Mr. ROGERS of Texas. I want to say to the House that we are deeply indebted to the gentleman from New York and the members of his subcommittee who have worked so hard on this legislation. We are indebted also to those who served on this committee of conference. These people have been attacked in a most vicious way here, as well as other members of the Interior Committee, of which I am a member, and I certainly hope that the Members of this House will not be guided by what some hot-heads on the outside said, but will meet the responsibility of this mental health problem in Alaska as it has been met by the gentleman from New York and the Members who have served with him.

Mr. O'BRIEN of New York. I thank the gentleman.

Mr. DAWSON of Utah. Mr. Speaker, will the gentleman yield?

Mr. O'BRIEN of New York. I yield to the gentleman from Utah.

Mr. DAWSON of Utah. I just want to add my word of commendation to the chairman of this committee. I do not know of any chairman of any committee that I have had anything to do with that has been more patient, more understanding of this problem than the chairman of this committee has. He has been absolutely impartial, nonpolitical and has given everybody a chance to be heard. And, I am surprised that he has maintained the patience he has.

Mr. O'BRIEN of New York. I thank the gentleman.

Mr. SAYLOR. Mr. Speaker, will the gentleman yield?

Mr. O'BRIEN of New York. I yield to the gentleman from Pennsylvania.

Mr. SAYLOR. I would like to join in the comment of the gentleman from Utah. There has been no more diligent Member of this House in this session of the Congress than the gentleman who is now speaking in the well of the House, Mr. O'BRIEN. He has done a masterful job. He has taken abuse that most people would have rebelled at. He has been maligned by people who have ulterior motives, and the best thing this House can do to establish its own integrity and stand up for the Members who are willing to stand on the firing line and be counted is to overwhelmingly adopt this report and allow the people of Alaska to establish their own commitment procedures and to see to it that the loved ones in Alaska are given the kind of treatment and to the same extent that the people in every State get.

Mr. SISK. Mr. Speaker, will the gentleman yield?

Mr. O'BRIEN of New York. I yield to the gentleman.

Mr. SISK. May I say to the gentleman that I want to join in every word uttered by the gentleman from Pennsylvania [Mr. SAYLOR]. I want to pay tribute to my distinguished chairman, the gentleman from New York [Mr. O'BRIEN] for the excellent job that he did. As a member of the committee I know of not only the hours but the days and weeks and even months that have been spent in hearings, and of the advice and testimony received from Dr. Overholser and many of the most eminent mental authorities in America today. I think it is an excellent bill and I agree with the gentleman from Pennsylvania [Mr. SAYLOR] that the bill should receive the unanimous vote of this House.

Mr. BARTLETT. Mr. Speaker, will the gentleman yield?

Mr. O'BRIEN of New York. I yield to the Delegate from Alaska.

Mr. BARTLETT. Mr. Speaker, I want to say that the gentleman from New York [Mr. O'BRIEN] has the gratitude of the people of Alaska for what he has done for us and my own personal gratitude will be lasting.

Mr. O'BRIEN of New York. I thank the gentleman.

Mr. JONAS. Mr. Speaker, would the gentleman yield?

Mr. O'BRIEN of New York. I yield to the gentleman from North Carolina.

Mr. JONAS. Mr. Speaker, I should like to say to the gentleman that I have received a great deal of mail on this subject, too. I read the Senate hearings

with great care and was enabled to answer the questions satisfactorily, I thought.

I am not opposed to the Territory of Alaska being permitted to handle its problem in this field. My only concern about the bill as it is now written is with respect to the 1 million acres of land. I understand that under the terms of the bill the Territory itself is permitted to select the land. It strikes me that is being just a bit on the liberal side.

Does not the gentleman think that the United States Government ought to have something to say about where the land should be that is selected and should we not be given the right to come to an agreement with the Territory? Should we not consider it together, pick out the 1 million acres together instead of just allowing the donee to make the selection without any strings attached?

Mr. O'BRIEN of New York. Mr. Speaker, may I answer the gentleman in this way: In the first place, the 1-million-acre figure came into being on a motion in our committee by the gentleman from Nebraska [Mr. MILLER], who has led the fight against this bill. Originally the figure was one-half million acres.

May I say further that the statehood bill for Alaska which came within 48 votes of passage in this House gave the Territory of Alaska 103 million acres. I have no concern about the possibility of Alaska becoming rich. The University of Alaska was given 100,000 acres, and my last information was that they got barely enough out of it to equip a basketball team.

Mr. Speaker, I move the previous question.

The previous question was ordered.

The SPEAKER. The question is on the conference report.

Mr. MILLER of Nebraska. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. The motion of the gentleman is not in order. The Senate has already adopted this conference report.

The question is on the conference report.

The question was taken; and on a division (demanded by Mr. MILLER of Nebraska) there were—ayes 130, noes 16.

So the conference report was agreed to.

A motion to reconsider was laid on the table.

CUSTOMS SIMPLIFICATION BILL OF 1956

Mr. COOPER. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 6040) to amend certain administrative provisions of the Tariff Act of 1930 and to repeal obsolete provisions of the customs laws, with Senate amendments thereto, disagree to the Senate amendments, and agree to the conference asked by the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Tennessee? [After a pause.] The Chair hears none, and appoints the following conferees: Messrs. COOPER, MILLS, GREGORY, REED of New York, and JENKINS.

COMMODITY CREDIT CORPORATION BORROWING POWER

Mr. SPENCE. Mr. Speaker, I call up the conference report on the bill (S. 3820) to increase the borrowing power of Commodity Credit Corporation, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Kentucky?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of July 18, 1956.)

The conference report was agreed to. A motion to reconsider was laid on the table.

PENSIONS TO WIDOWS OF SPANISH-AMERICAN WAR VETERANS

Mr. O'HARA of Illinois. Mr. Speaker, I ask unanimous consent for the immediate consideration of the bill (H. R. 2867) to increase the monthly rates of pension payable to widows and former widows of deceased veterans of the Spanish-American War, including the Boxer Rebellion and the Philippine Insurrection, which was unanimously reported by the Committee on Veterans' Affairs.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

Mr. MARTIN. Reserving the right to object, Mr. Speaker, and I am not going to object, will the gentleman explain the increases in the bill?

Mr. O'HARA of Illinois. This increases the pensions of the widows of Spanish-American War veterans from approximately \$54 a month to \$75 a month. There are only a handful left of these poor old women. I speak with a great deal of feeling because they are widows of the men I served with in the war over half a century ago.

Mr. MARTIN. I withdraw my reservation of objection, Mr. Speaker.

Mrs. ROGERS of Massachusetts. Reserving the right to object, Mr. Speaker, I should like to compliment the gentleman on the wonderful work he, as the last Spanish-American War veteran in the House, has done in getting this bill passed. The bill was reported out of the committee unanimously.

Mr. Speaker, I ask unanimous consent that all Members who desire to do so may extend their remarks at this point in the RECORD on the pending bill.

The SPEAKER. Is there objection to the request of the gentlewoman from Massachusetts?

There was no objection.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

There was no objection.

The Clerk read the bill, as follows:

Be it enacted, etc., That section 8 of the act of May 1, 1926, as amended by section 3 of the act of March 1, 1944 (58 Stat. 107), as amended (38 U. S. C. 364g), is amended to read as follows:

"SEC. 8. The rates of pension payable to widows and former widows under the provisions of section 2 of this act, as amended, are hereby increased to \$75 monthly."

SEC. 2. Section 1 of the act of June 24, 1948 (62 Stat. 645; 38 U. S. C. 3641), is amended by deleting the words: "authorized by section 4 of the act of August 7, 1946 (Public Law 611, 79th Cong.), as amended by the act of July 30, 1947 (Public Law 270, 80th Cong.)", and inserting in lieu thereof the following: "prescribed by section 8 of the act of May 1, 1926, as amended by section 3 of the act of March 1, 1944 (58 Stat. 107), as now or hereafter amended (38 U. S. C. 364g)."

SEC. 3. This act shall be effective from the first day of the second calendar month following its enactment.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

HON. WILLIAM F. KNOWLAND

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (S. 4256) to authorize the Honorable WILLIAM F. KNOWLAND, United States Senator from the State of California, to accept and wear the award of the Cross of Grand Commander of the Royal Order of the Phoenix, tendered by the Government of the Kingdom of Greece.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

The Clerk read the bill, as follows:

Be it enacted, etc., That the Honorable WILLIAM F. KNOWLAND, United States Senator from the State of California, is authorized to accept the award of the Cross of Grand Commander of the Royal Order of the Phoenix, together with any decorations and documents evidencing such award. The Department of State is authorized to deliver to the Honorable WILLIAM F. KNOWLAND any such decorations and documents evidencing such award.

SEC. 2. Notwithstanding section 2 of the act of January 31, 1881 (ch. 32, 21 Stat. 604; 5 U. S. C. 114), or other provision of law to the contrary, the named recipient may wear and display the aforementioned decoration after acceptance thereof.

Mr. McCORMACK. Mr. Speaker it is a pleasure to me to make this unanimous-consent request for the consideration of this bill relating to the distinguished Republican leader of the United States Senate, Senator KNOWLAND. This is typical of America. It is a pleasure to me because of the fine admiration I hold for him and the equally fine feeling of friendship. In my opinion, he is one of the great Americans of this day and age.

Mr. McDONOUGH. Mr. Speaker, I want to join in the remarks of the majority leader. I think this is a much deserved honor for a distinguished native of the State of California. We are very happy to know that this award has been granted to him.

Mr. JUDD. Mr. Speaker, will the gentleman yield?

Mr. McCORMACK. I yield.

Mr. JUDD. I am curious to know why the name of our colleague, the gentleman from New York [Mr. TABER] was

not included. I happen to know that he received the same honor.

Mr. McCORMACK. If that is so, we can very quickly take care of that. I am calling up the bill that passed the other body.

Mr. JUDD. I thank the gentleman.

GENERAL LEAVE TO EXTEND

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that all Members who may desire to do so may extend their remarks at this point in the RECORD.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

The bill was ordered to be read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

SIMPLIFYING ACCOUNTING AND FACILITATING THE PAYMENT OF GOVERNMENT OBLIGATIONS

Mr. DAWSON of Illinois. Mr. Speaker, I call up the conference report on the bill (H. R. 9593) to simplify accounting, facilitate the payment of obligations, and for other purposes, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Illinois?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of July 16, 1956.)

Mr. DAWSON of Illinois. Mr. Speaker, there have been no requests for time and I move the previous question.

The previous question was ordered.

The SPEAKER. The question is on agreeing to the conference report.

The conference report was agreed to.

A motion to reconsider was laid on the table.

STILL FURTHER MESSAGE FROM THE SENATE

A still further message from the Senate, by Mr. Carrell, one of its clerks, announced that the Senate had passed, with an amendment in which the concurrence of the House is requested, a bill of the House of the following title:

H. R. 7619. An act to adjust the rates of compensation of the heads of the executive departments and of certain other officials of the Federal Government, and for other purposes.

The message also announced that the Senate insists on its amendments to the foregoing bill, and requests a conference with the House on the disagreeing votes of the two Houses thereon, and appoints Mr. JOHNSTON of South Carolina, Mr. PASTORE, Mr. SCOTT, Mr. CARLSON, and Mr. JENNER to be the conferees on the part of the Senate.

The message also announced that the Senate agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 1637), entitled "An act for the relief of Sam H. Ray."

Public Law 798 - 84th Congress
Chapter 727 - 2d Session
H. R. 9593

AN ACT

To simplify accounting, facilitate the payment of obligations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the account for each appropriation available for obligation for a definite period of time shall be closed as follows:

(1) On June 30 of the second full fiscal year following the fiscal year or years for which the appropriation is available for obligation, the obligated balance shall be transferred to an appropriation account of the agency or subdivision thereof responsible for the liquidation of the obligations, in which account shall be merged the amounts so transferred from all appropriation accounts for the same general purposes; and

Government obligations.
Accounting procedure.
Merged accounts.

70 Stat. 647.
70 Stat. 648.

(2) Upon the expiration of the period of availability for obligation, the unobligated balance shall be withdrawn and, if the appropriation was derived in whole or in part from the general fund, shall revert to such fund, but if the appropriation was derived solely from a special or trust fund, shall revert, unless otherwise provided by law, to the fund from which derived: *Provided*, That when it is determined necessary by the head of the agency concerned that a portion of the unobligated balance withdrawn is required to liquidate obligations and effect adjustments, such portion of the unobligated balance may be restored to the appropriate accounts: *Provided further*, That prior thereto the head of the agency concerned shall make such report with respect to each such restoration as the Director of the Bureau of the Budget may require, and shall submit such report to the Director, the Comptroller General, the Speaker of the House of Representatives, and the President of the Senate.

Withdrawal of unobligated balance.

Reports.

(b) The withdrawals required by subsection (a) (2) of this section shall be made—

Time.

(1) not later than September 30 of the fiscal year immediately following the fiscal year in which the period of availability for obligation expires, in the case of an appropriation available both for obligation and disbursement on or after the date of approval of this Act; or

(2) not later than September 30 of the fiscal year immediately following the fiscal year in which this Act is approved, in the case of an appropriation, which, on the date of approval of this Act, is available only for disbursement.

(c) For the purposes of this Act, the obligated balance of an appropriation account as of the close of the fiscal year shall be the amount of unliquidated obligations applicable to such appropriation less the amount collectible as repayments to the appropriation; the unobligated balance shall represent the difference between the obligated balance reported pursuant to section 1311 (b) of the Supplemental Appropriation Act, 1955 (68 Stat. 830; 31 U. S. C. 200 (b)), and the total unexpended balance. Collections authorized to be credited to an appropriation but not received until after the transfer of the obligated appropriation balance as required by subsection (a) (1) of this Act, shall, unless otherwise authorized by law, be credited to the account into which the obligated balance has been transferred, except that any collection made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

Obligated balance.

Collections.

(d) The withdrawals made pursuant to subsection (a) (2) of this section shall be accounted for and reported as of the fiscal year in

Accounting and reporting of withdrawals.

which the appropriations concerned expire for obligation. The withdrawals described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

Payment of obligations.

SEC. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

70 Stat. 648.

70 Stat. 649.

Agency review.

SEC. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically, but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess, not to exceed the remaining unobligated balances of the appropriations available for the same general purposes, may be restored to such account. A review shall be made as of the close of each fiscal year and the restorations or withdrawals required or authorized by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which restorations or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished: *Provided*, That prior to any restoration under this subsection the head of the agency concerned shall make such report with respect thereto as the Director of the Bureau of the Budget may require.

GAO report to agency, Treasury, and Budget.

(b) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

Certified claims.

SEC. 4. During the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the obligated balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), shall be transferred to the related appropriation accounts established pursuant to this Act and the unobligated balance shall be withdrawn.

Obligated balances for definite periods.

SEC. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may, upon the expiration of the second full fiscal year following the fiscal year or years for which such appropriations are available for obligation, be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the

agency or subdivision thereof currently responsible for the liquidation of the obligations.

SEC. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled; or in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

Unobligated balances.
Unlimited periods.

70 Stat. 649.
70 Stat. 650.

SEC. 7. The following provisions of law are hereby repealed: Repeals.

(a) The proviso under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

(c) The paragraph under the heading "PAYMENT OF CERTIFIED CLAIMS" in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

(f) Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation which is limited for obligation to a definite period of time to remain available for expenditure for more than the two succeeding full fiscal years, but this subsection shall not be effective until June 30, 1957.

SEC. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia or appropriations to be disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

Nonapplicability.

SEC. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized.

Authorized exceptions.

Approved July 25, 1956.

